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The Business Quarterly

SUMMER 1959 | VOLUME XXIV NUMBER 2

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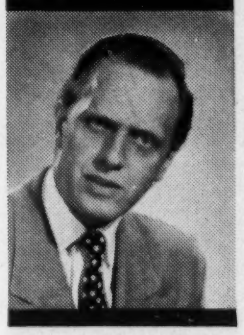

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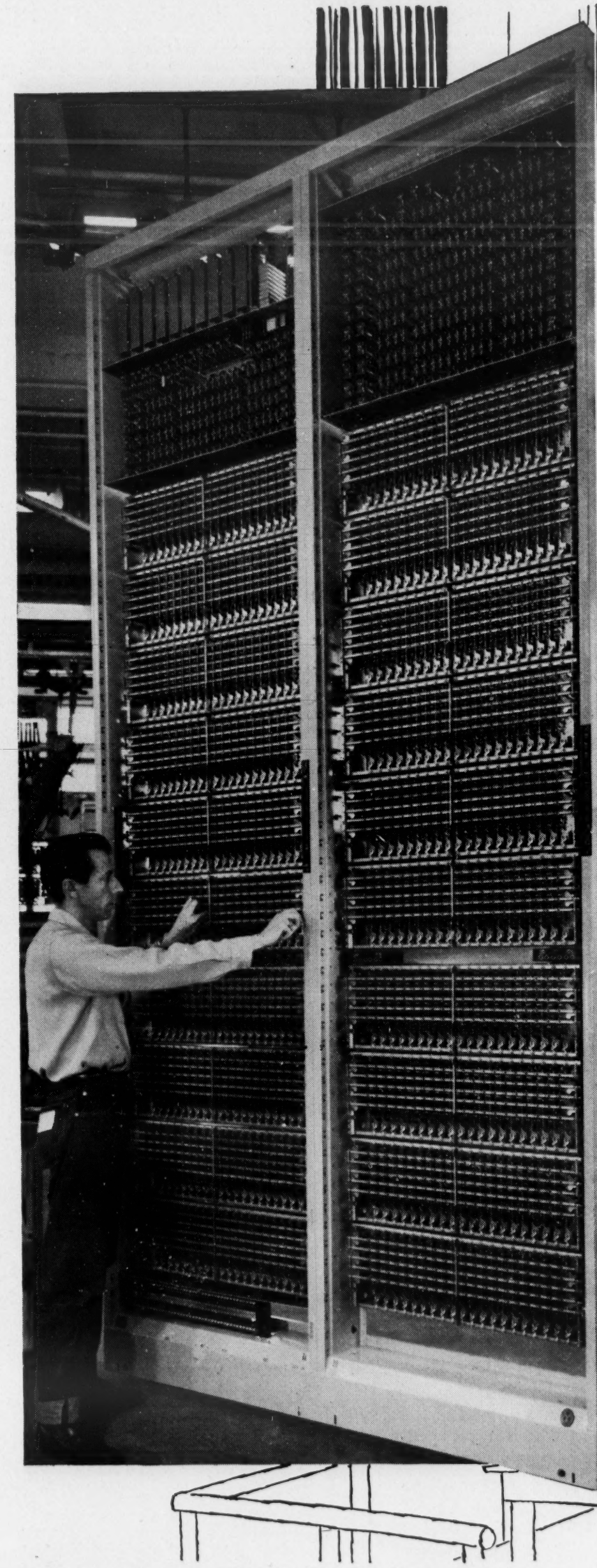

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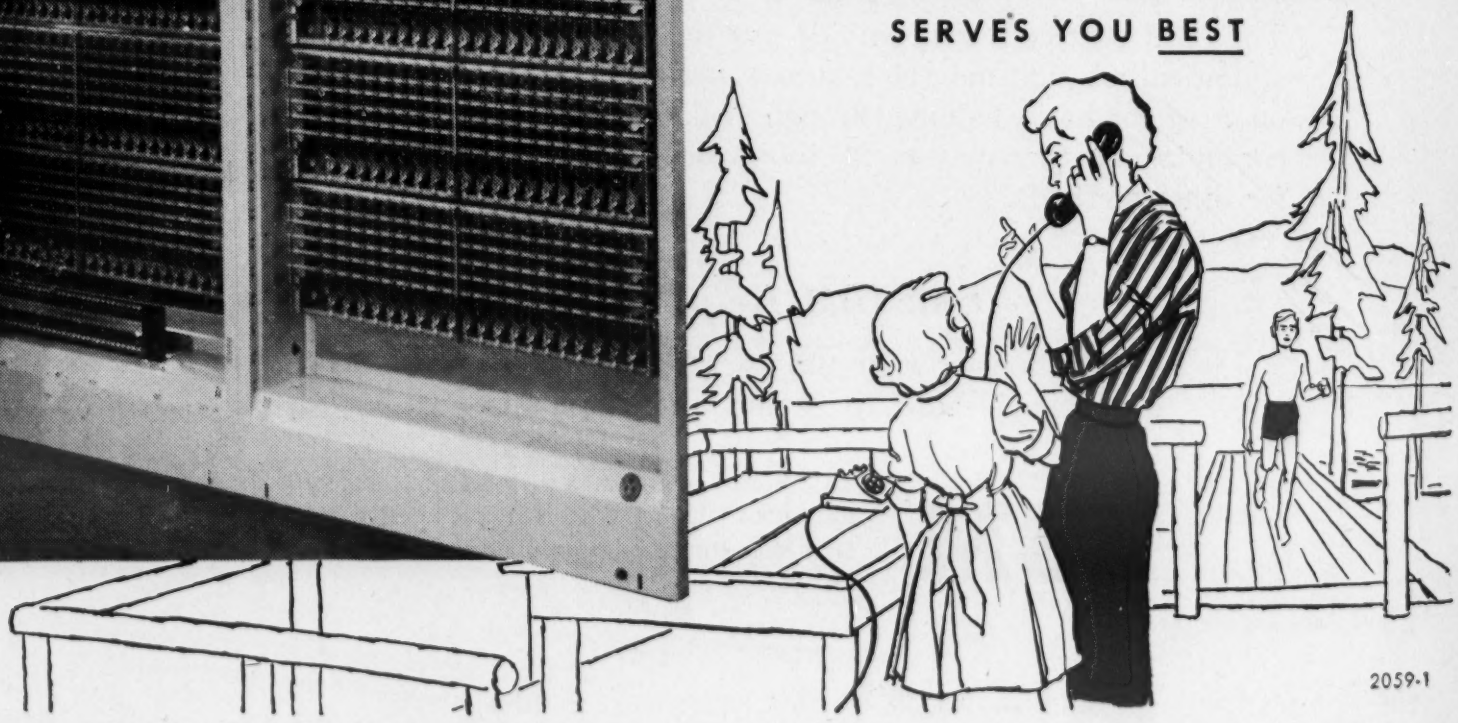

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THE
BUSINESS QUARTERLY

VOLUME XXIV SUMMER
NUMBER 2 1959

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Why Buy Canadian?

For some time now, Canadians have been urged from many angles to "Buy Canadian". By buying Canadian, we consumers are supposed to obtain some assurance of quality. Furthermore, we maintain employment in Canada and support Canadian industry.

At least one Canadian has spoken out sharply against this "Buy Canadian" campaign. Clair Stewart, director of creative planning for a Toronto firm, severely criticized many of the businesses sponsoring the campaign for talking one way and acting another—for urging consumers to "Buy Canadian", but bypassing Canadian suppliers when placing purchase orders. He said: "It makes me ill to hear and read so much patriotic trash talked publicly and through advertising by spokesmen for some of our biggest corporations and then observe some of their buying habits."

Mr. Stewart has a point. And there are a few others that might be made while we're at it.

Who says that we buy quality when we buy Canadian? In some cases, yes; in many others, no. In far too many cases, it seems to us, "Buy Canadian" has meant high prices, unimaginative designs and mediocre quality. It's an old axiom that all the advertising in the world won't sell a poor product. Let's be sure we really have the goods before we go throwing around catchy phrases like "Buy Canadian and you buy quality". Let's not use "Buy Canadian" as a crutch for inefficiency, bloated labour costs, or unwillingness to compete.

It's all very well to support Canadian industry and employment, but let's not forget that this country's prosperity depends to a large extent on foreign trade. Aren't we being a little hypocritical when we urge Canadians to "Buy Canadian", and then protest when the U.S. attempts, by tariffs and import restrictions, to get U.S. firms to "Buy American"? Let's not get carried away and convert "Buy Canadian" into "Keep other people's products out". Surely Canada, of all people, stands to lose from any reduction in world trading brought about by preferential treatment for domestic sources of supply.

Perhaps our position should be made clear—we certainly aren't against either buying Canadian or supporting Canadian industry. But if Canadian industry expects consumer support, it should realize that it has some responsibilities too—namely to produce goods that offer real value at competitive prices. The consumer's responsibility is not to buy Canadian because goods are Canadian, but to buy whatever offers the best value. If they're Canadian, so much the better.

D. S. R. LEIGHTON

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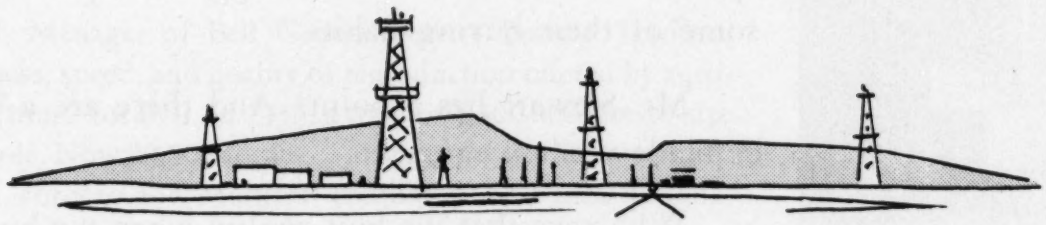
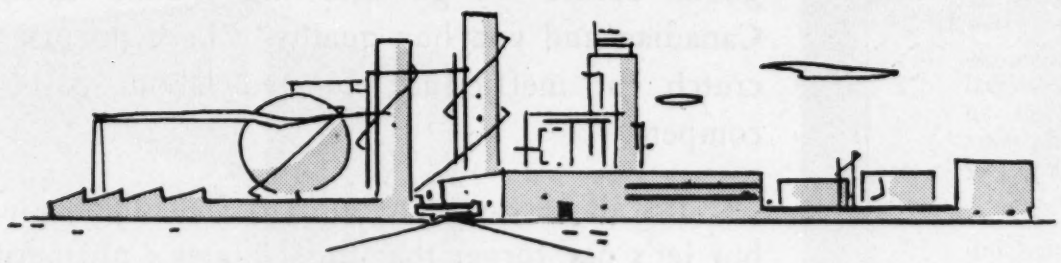


to refinery



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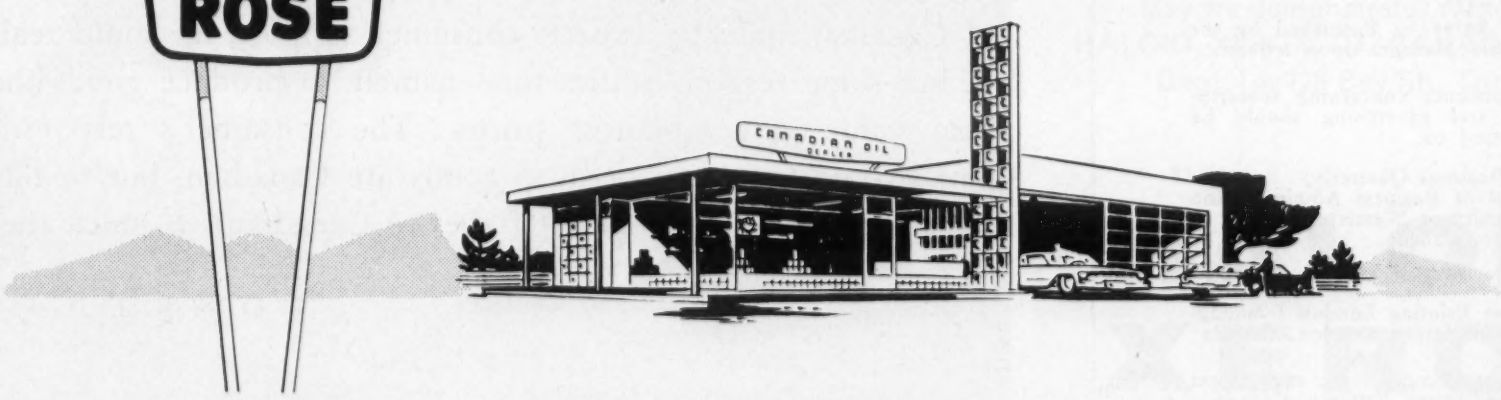

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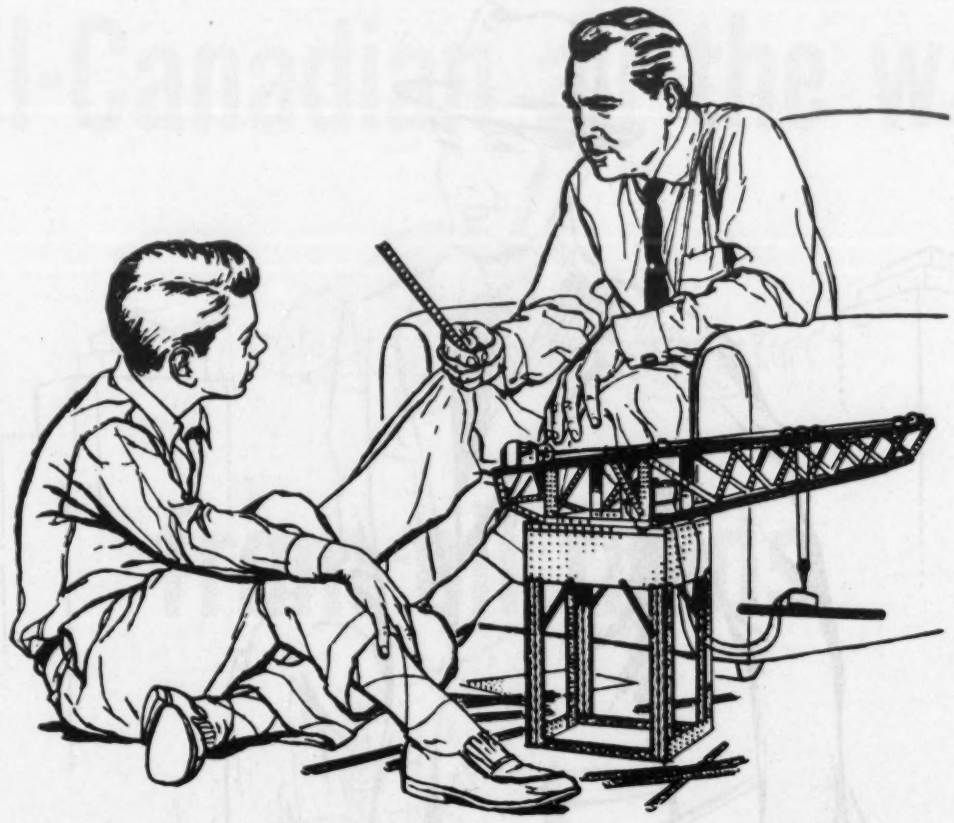

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Those private 'man-to-man' talks are precious moments. They are a time for talk and a time just for looking — to watch the development and curiosity of youth. In this country, there is much for a boy and his father to share. An awareness of the expansion and growth of Canada is a major opportunity . . . exciting to both young and old.

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Ottawa Newsletter

PATRICK NICHOLSON

What is a business executive worth?

In 1956, 85,962 Canadians enjoyed incomes of over $10,000. But only 40 of our 367 federal legislators drew parliamentary salaries placing them in that income group. Some 2,516 Canadians had incomes of over $50,000 a year, but not a single member of the board of directors of "Canada Unlimited", namely our federal Cabinet, was paid at that level.

Last year, the average Canadian, including babies as well as adults, spent $76.47 on alcohol and tobacco. But the pay for our 367 federal legislators cost that average Canadian a mere 22 cents.

The managing director of "Canada Unlimited", the Prime Minister, handles a corporation with an annual budget of over $5,500,000,000 a year. We pay him, for the unceasing grind and responsibility of an 80-hour work week, $37,000 a year, or less than half the reputed salary of the man who runs a crown corporation with a budget one-twentieth that size, namely the president of the Canadian National Railways.

In comparison with other countries, we come off very badly as regards our treatment of parliamentarians. American Congressmen are paid more than twice as much as our parliamentarians. In Australia, where the average weekly wage is $33 a week, M.P.'s are paid $7,500 a year; in Canada, where the average weekly wage has just topped $73, M.P.'s are paid $10,000 a year.

It is obvious from these figures that the executives who handle the business of our nation are not paid anything approaching a commercial appreciation of their work and responsibility. They neither ask for that nor expect it in their chosen career as our elected representatives. But we should ask ourselves the question which was recently posed in our Senate, by a man who, since immigrating to Canada, has served at all three levels of government: as city mayor, as provincial cabinet minister, as federal M.P. and now as Senator. Are we, as Senator David Croll asserted, "on the cheap with Parliament"?

It is a widely-supported principle that our elected politicians, the part-time back-benchers whose role is only to attend sessions of parliament, should not become career or whole-time politicians. They should rather retain their contact with the feel of our nation, by living a normal daily life in their constituencies and carrying on their individual callings between sessions.

In some occupations this can be done. A lawyer, a farmer, a contractor, an engineer, a doctor: these perhaps can absent themselves to Ottawa for six months in the year but still maintain their civilian calling the rest of the year—provided they have a partner or paid help. Others, such as teachers and civil servants, must entirely abandon their former occupation.

Yet on becoming an M.P., a man or woman at once faces this question: "do I open a second home in Ottawa, and take my family there with me for six months of the year? Or do I leave my family at home?"

The former imposes a financial hardship not recompensed by the pay for the job; the latter, in the case of young families especially, deprives Canada's children of an essential influence in their character-building.

Senator Croll spoke of young politicians being forced heavily into debt, and soon having to reconsider their position and their loyalties.

Their present remuneration was fixed by Parliament in 1954, since when the rise in our cost of living has slashed one-tenth off its purchasing power.

Would any labor union remain quiescent under such conditions?

Yet our politicians feel uncomfortable when speaking about their own remuneration, because they and they alone have the power to make the now-overdue adjustment.

The time has perhaps come for a thorough survey of this whole matter, most appropriately by an independent royal commission. Its findings, we should hope, would add a cost-of-living clause to offset inflationary trends, would provide pensions for widows, would add a pension for the managing director at a commensurate figure, and in general would adjust the remuneration of the executives and staff of "Canada Unlimited" to a scale where we, the taxpayers, would not feel two-bit cheap.

In realism, and to be fair to our elected representatives, and indeed to continue to attract the best men and women in our communities to serve our nation, the cost to each of us of our legislators' remuneration should be raised from the present 22 cents per Canadian to something approaching 35 cents, or one whole packet of cigarettes per year.

Washington Newsletter

JAMES M. MINIFIE

Labour-management relations dominate domestic politics. The amended Kennedy-Ervin bill passed the Senate by the striking vote of 90-1. The single opponent was Sen. Goldwater of Arizona, who is considered extreme even by Republicans. Unanimity minus one is no mean tribute to the compromise which was worked out. The essential contribution which made this possible came from Sen. McClellan of Arkansas, a fellow-Democrat to Sen. Kennedy. Without McClellan's so-called "Bill of Rights" for the rank-and-file union member, the bill might well have failed of passage. But without the modifications of language to which Sen. McClellan consented, Sen. Kennedy would have stricken his name from the measure.

The bill may have a long and rough voyage in the House. Powerful factions hope to reinforce or to modify further the "Bill of Rights". There will be an attempt to deal with secondary boycotts and blackmail picketing by way of rounding off the section which prohibited the signature of contracts giving unions the right to reject "hot" cargoes. The bill will come out of the House a very different measure in all probability; then the differences must be ironed out by a handful of Senators and Representatives in legislative conference. The end result will powerfully affect for good or ill the future and the presidential hopes of Sen. Kennedy.

The public is gradually recognizing that big labour and big industry have reached the monopoly position once held by the railroads. Recognition brings resentment, now as then.

Long after their monopoly of transportation was broken by super-highways, inland waterways and airplanes, the railroads have groaned under the restrictions which their monopolistic abuses brought on them. A recent study sponsored by the Brookings Institution recommends that power and incentive to resort to competitive pricing be restored, and working rules and wage practices revised to permit cutting out unnecessary labor costs. The Canadian railroads' efforts to get rid of diesel firemen point up the difficulties.

Big labour and big steel appear determined to force Congressional action for the public's protection, despite the example of what happened to the railroads. The two giants are squaring off for a show-down when present contracts end July 1, with contemptuous disregard for the public interest. Steel's earning for the first quarter set an all-time high. Labor's productivity slipped significantly, although not as much as the Department of Labor's statistics showed. Labour is determined to obtain higher wages, despite the relative stability of the cost of living index. Management is determined to recover any wage increases on a cost-plus basis.

This sequence has strengthened the hands of Senators O'Mahoney and Kefauver, who want to force big industry to show cause before it hits the public with price increases. Any industry of which 50% of the output is controlled by eight or fewer corporations would qualify. They would be required to notify the Federal Trade Commission in advance of price rises, so that the commission could hold public hearings on the matter. The rises would be held in abeyance for 30 days while the companies tried to justify them in the full light of publicity. Afterward they would be free to do as they saw fit.

Roger M. Blough, chairman of U.S. Steel, was unwise enough to call this "the road to Moscow". He was wrong. It is the road to Fascist Rome and the Corporate State. The bill has little chance of passing, but Big Industry would be as unwise as Mr. Blough if it did not glance back over the history of Big Railroads.

About Our Authors

J. William Horsey, LL.D., D.Hum., Litt.D., started his career at the age of 16 years as a Railway Company Traffic Clerk. In 1916 his traffic experience led to a position with the traffic dept. in Buffalo of the already large Fleischmann food organization. After three years he was promoted to assistant manager of the Toronto office of the company and by 1929 had become divisional manager for Canada. When the Fleischmann Company became part of Standard Brands Ltd. in 1929, he was elected vice-president in charge of Fleischmann Products, and was later responsible for the same direction of Chase and Sanborn Products. He took the presidency of Standard Brands Limited in 1934, and four years later joined Dominion Stores as executive vice-president. By November, 1938, he had been elected president. Mr. Horsey stepped from the presidency of Dominion Stores three years ago to become Chairman of the Board. Soon after World War II, the J. William Horsey Corporation was formed, which in 1955 was linked with the food organization of Shirriff's Ltd., and in 1957 the Salada Tea Company became a third link to make up the Salada-Shirriff-Horsey Corporation, with Mr. Horsey as Chairman of the Board and Director. In addition, he is also associated with numerous other companies, including General Bakeries Limited; Orange Crush Limited, Toronto; Orange Crush Co. (Illinois) and Inter-American Orange Crush Company.

John G. Myers, B.S.F., M.B.A., Instructor in International Business Management at the University of Western Ontario, received his undergraduate degree at the University of British Columbia and his M.B.A. from the University of Western Ontario. His industrial experience includes two years in British Columbia with the MacMillan and Bloedel Company, and six months in Sweden and Europe.

Stewart Thompson has written for three previous issues of *The Quarterly*. His articles on a broad range of top-management problems have appeared in a number of other Canadian and American business papers. As well as being senior partner of his own firm, Management Research Associates, London, Ontario, he is Editorial Advisor for

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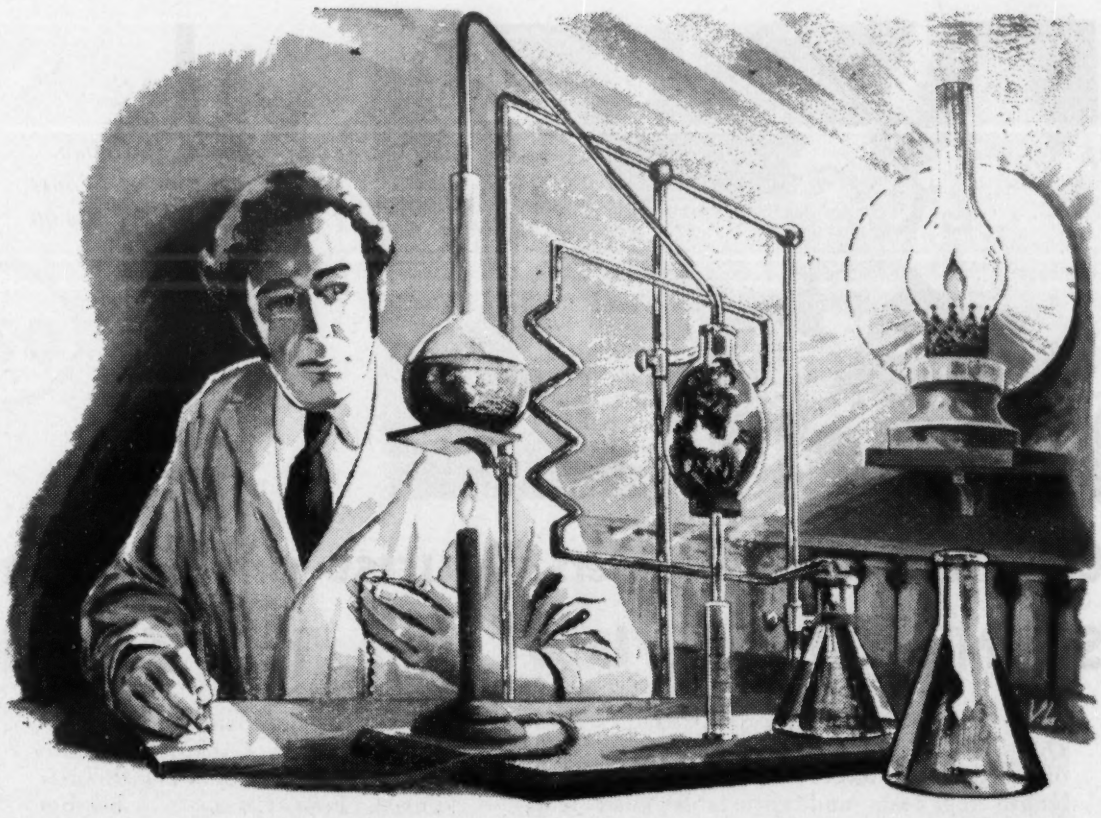

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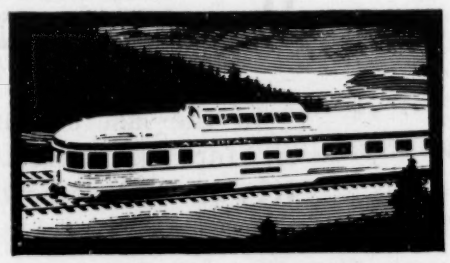

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About Our Authors cont.

Management Planning and Administration for *Office Equipment & Methods*, and Administrative Assistant with a well-known Canadian hosiery company. He has directed a number of management seminars, and is instructor of two training programs sponsored by McMaster University's Extension Department. In his current article for *The Quarterly* he draws on one of his research studies undertaken for the American Management Association.

John J. Wettlaufer is Associate Professor of Business Administration at the University of Western Ontario, where he teaches administrative practices, personnel and industrial relations. He is also Director of the Marketing Management Course at Western and co-editor of *Canadian Business Administration—A Survey Course*. He received his B.A. (1950) and M.B.A. (1951) from the University of Western Ontario.

Continued on Page 131

Letters to the Editor

Thank you for your article which appeared in the Spring edition. You have been both factual and generous.

James S. Duncan,
The Hydro-Electric Power Commission of Ontario,
Toronto, Ontario

The Washington News Letter, by J. M. Minifie, in the latest issue of the "Quarterly" contains two of the most extraordinary statements that I have ever seen in your magazine. I refer to the statement that the New Deal regulatory bodies have been more concerned to ensure that corporations should pay a goodly and godly 5% than to shield the consumer from higher prices, and the statement that inquiries might reveal collaboration between big business and big unions.

It is completely astonishing that such statements should appear in a magazine of this kind without any editorial comment whatever. Minifie is certainly entitled to his opinions, but they hardly come under the heading of a News Letter.

F. H. Howard,
General Motors Diesel Limited,
London, Ontario

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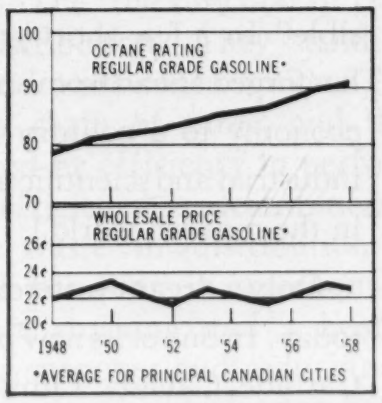

Octane has increased steadily compared to wholesale gasoline prices.

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in things to come

FOOD DISTRIBUTION IN CANADA

Some Reflections and Observations

In the following article, one of the pioneers of modern food distribution in Canada reviews the major developments in this field over the past 40 years. He examines the factors behind these developments, and the implications they hold for the future.

J. WILLIAM HORSEY

It is now over 40 years since I first became connected with food distribution. What amazing things have happened in that time! Foods that today are considered daily necessities in the Canadian family's menu were then virtually unheard of. Shopping habits have changed beyond all recognition. Distribution itself has seen tremendous advances—supermarkets were unknown, self-service had just been "invented", there were no real chain stores in the sense that we know them today. Relative to family incomes, foods were tremendously expensive, variety was limited, and food distribution enormously inefficient by today's standards.

The paper that follows contains some personal observations and reflections on developments in food distribution, particularly at the retail level. The historical development of the food chain will be considered first; later sections will discuss the major trends in food distribution today, with some comments on the future.

HISTORICAL DEVELOPMENT

The historical development of the food chains is a thrilling story. The pioneers, largely rugged individuals, lured by the opportunity of great gain and wholly devoid of altruistic ambitions, saw an opportunity to bring food to the consumer at lower costs through the elimination of the so-called middleman. This extended itself into lowering costs by large-volume buying at prices often with disastrous results to producers, processors and manufacturers; by paying low wages to employees; by low rents for premises; by obtaining secret discounts and allowances to such an extent that restrictive legislation in the United States and Canada became not only advisable but an absolute necessity. Operators concerned themselves with buying rather than marketing, forcing upon the consumer the merchandise bought at low prices regardless of consumer needs or wants, rather than studying consumer needs and offering merchandise at prices and with a service calculated to satisfy those needs. These pioneers were tremendously successful in spite of their lack of vision and methods, for the simple but basic reason that the new system did lower the cost of distribution. On this sound economic principle, they continued to grow and prosper. In fact, that contribution to reduced cost of distribution was and is the only justification for a chain store's existence. Without it one might ask, why chain stores?

Until the late 'twenties, I question whether even the best or most successful operators had any conception of their true function. The true function of chain stores is that of mass distribution. They stand between mass production and mass consumption. They are the middle link in a chain of three, and their economic value is measured by efficiency in performing that service. Their efficiency is determined by their ability to eliminate waste in distribution, to develop new methods of handling in warehousing, transportation, retail store stocking and a host of other activities, increasing turnover and reducing the number of times articles are touched by human hands. Concentration on these factors of reducing distribution costs and bringing merchandise to consumers at lower prices by the minimizing of costly and unnecessary services, rather than forcing the producer to sell

his goods at sacrificial prices, or obtaining services below cost, is the true function of mass distribution.

Those who adopted this concept in the early 'thirties became the most successful operators and did so even under highly restrictive legislation and greatly increased costs in wages, rents and services.

In the evolutionary development of retail chain food stores, the innovations did not come from the larger operators. In fact, the latter generally opposed modern revisions of the system they had established —many to their sorrow. In 1916, Clarence Saunders, a colourful individual with a keen mind, opened a store in Memphis, Tenn. Here, the first self-service unit was born and called the Piggly Wiggly Store. It contained the first turnstile and check-out counter. At the peak of the company's success, 2,660 stores were in operation in the U.S.A., hundreds of which exist today. The large chains did not adopt the new idea for a very long time.

Today, a multiple retail operation could not exist on any other basis. There were large corporate chains that declared they would never change. Why was the idea successful and why did it prosper? First, it allowed the customer to pick and choose. Second, the customer did a great deal of the work. Both of these customer functions contributed to rapid turnover and reduced again the cost of distribution. There were corporate chains in North America that did not convert their operations into self-service until the late 'thirties and early 'forties. But this revolution over the years brought about substantial reductions in distributing costs, and for that reason it remained. It was economically sound.

For the next development, I cannot do better than quote from *The Supermarket—A Revolution in Distribution,* by M. M. Zimmerman, in which he says:

> In the early 'thirties, two distribution bombshells burst around New York, with the opening in 1930 of King Kullen, followed in 1932 by the opening of Big Bear. So propitious was the moment, economically and psychologically, for the appearance of a new system of mass distribution, that the opening of these two unique markets was hailed as marking a new venture. And up to today, the history of the supermarket industry is generally reckoned from this time.
>
> Actually, however, the appearance of these two amazing food retailing operations on the Atlantic Seaboard had been preceded by many experiments throughout other sections of the country, in the various features which combined to make up the composite operation that has since been glorified by the term 'supermarket'.

In 1920, many of the western and south western states boasted of huge self-service markets of varying areas. These 'coliseums', while slowly gaining momentum, especially in California, were concerned with attracting mass patronage, much as were the later eastern supermarkets of the 'thirties. There were a number of these large self-service western markets, which were housed in former lofts or car-barns.

As in the eastern markets of the 'thirties, emphasis was on price. Mountains of groceries were put out for customers who travelled as far as 100 miles to shop at these emporiums. They did not care what the place looked like as long as they could save a few pennies. This was even more true in the 'thirties, during the depression days. Some of these stores were even then chalking up record traffic totals each week. One hundred thousand customers per week was not uncommon. Customers waiting on themselves spent as much as $50, or more, on groceries alone at one time.

While these efforts were sporadic and did not give impetus to the national movement which was to follow Mike Cullen's Long Island opening in 1930, a history of supermarket development in America demands a review of some of these great, scattered, early operations, which remain in the vanguard of supermarket operation even to this day.

One of these operations is Ralph's Grocery Co., of Los Angeles, who have been pioneering in the food business since 1873. Starting, as all pioneers do, in a most modest way, Ralph's developed some of the finest markets in Los Angeles. As far back as 1930, they were operating markets — really supermarkets — which would have been a credit to any community. Some of these early Ralph buildings are almost as modern today as when they were built 25 and 30 years ago. When Ralph's emerged 25 years ago as supermarket operators, they again built the finest buildings, which at that time required an investment of $100,000 per unit. By 1929, Ralph's had 12 cash-and-carry stores, and by 1936 they had increased to 25 units of the supermarket type.

Here was the birth of the supermarket, another contribution to reductions in cost of distribution. These early supermarket operators were not concerned with frills, their chief objective being to get merchandise to people in large volume at a minimum cost. The depression years of the 1930's certainly helped in establishing these markets as an integral part of retail marketing in North America.

As in so many things, those who look back can pontificate and write books on the success of such a phenomenal development, and nearly every successful operator will tell you of his foresight and planning as being responsible for what we see in North America today. But I do not believe the pioneers in the field had any conception of what they were launching on the buying public. Certainly operators today, fattened by lush inflationary years, are not governed by the principles of low-cost distribution. However, because of size, the inclusion of non-food items with higher margins, and tremendously increased store traffic with resulting large volume, they have been able to reduce costs per dollar of sale, in spite of the palaces that now bear the name of supermarket.

In 1946, President Truman, in a letter to the Supermarket Institute, said, "I believe that we have all learned one basic truth about our system of free enterprise as a result of our war-time experience. We are convinced now as never before that the common good is best served by producing and distributing goods in high volume and at low unit costs. By lowering the costs of production and distribution, we make it possible for the great masses of our people to buy more goods and thus advance the welfare of the nation. The merchants of this country can render a great service by keeping this basic truth in mind and working for a rapid, high volume turnover, rather than high profits on individual items."

I do not think it is possible to understand the development of the whole chain store industry into what we now call supermarkets unless we recognize this basic fact of lowering the cost of distribution and thereby lowering the retail price, rather than lowering retail prices by forcing the manufacturer down.

In retail distribution—and this is a point I would like to make, although I am not the creator of the point—it is the divisor that counts. Here is the example of one company with which I am familiar: In 1938 the sales volume was $18,000,000; the number of stores, 464; the gross margin, across the board, 21 per cent; producing a net loss of $200,000 or a little over 1 per cent.

The same company in 1957: the sales were $312,000,000; the number of stores 334—130 fewer; the gross margin, across the board, was 15 per cent; the profit was $6,500,000, or a little over 2 per cent after taxes.

During this time, total operating expenses increased from $3,960,000 to $42,363,811. I think that proves the point that in this business it is the divisor that counts.

What is the point of all this? Simply that producers and retailers of merchandise cannot hope to do business together successfully unless producers recognize the service rendered by the retail distributors or organizations into whose hands we place our goods for a short period of time on their way to the consumer, when they become ours again; and unless we are prepared to conform to the pattern of distribution they have developed over the years, allowing them a portion of the profit on the way through to the consumer.

These points apply alike to drugs, hardware, confections, health and beauty aids (including cosmetics), clothing, shoes, and food, as I shall endeavour to demonstrate later.

THE SUPERMARKET TODAY

Before commenting on more recent developments in North American retailing, I should like to give you a picture of Supermarkets 1959:

> A supermarket is a highly departmentalized retail establishment, dealing in foods and other merchandise, either wholly owned or concession operated, with adequate parking space. The grocery department, as a rule, is on a self-service basis. It must be.
>
> In many ways, it may be said that the real predecessor of the supermarket in North American merchandising is the old trading post, which apparently remained as part of the North American buying consciousness. The supermarket, to a startling degree, is nothing but the old trading post grown to gargantuan proportions.
>
> To see the real parallel between the great market and the old trading post and village store, on must revisualize these latter centres of retail trade and social exchange. The trading post was generally quartered in the centre of a wide area . . . it was the point of attraction of an entire community. It made no effort to be enticing or to lure trade or visitors. Its presence in the neighbourhood was presumed to be a blessing in itself. Its goods were there for customers to take or leave. Service and delivery were

never heard of; fitting rooms, or even a mirror, were luxuries beyond realization . . . a woman bought a hat as she bought a ham.

In an unbelievable medley was piled up everything a purchaser of those good old days could desire — calicoes, bustles, horehound candies, cans of lard, harnesses. . . . From the ceilings hung frying pans, trousers, farm implements, mousetraps. Nevertheless, the general store was a wondrous emporium; men, women and children from miles around looked forward with pleasure to a visit to its cheerful chaos. Whole families piled into the buckboard or family buggy. Lunches were carried aboard, and off went the whole clan, the amazing disance of 10 or 15 miles on the most exciting of possible experiences. In front of the trading post or village store was the long hitching post where horses nibbled at their oat bags, waiting until baskets, sacks, and cane were brought out and piled up under the seats for the homeward trip.

The supermarket today smacks of the same atmosphere. A kind of picnic air pervades its vast interiors. Like the trading post of old, the supermarket draws no lines in possible wares. It features anything from radios to canned pears. Its aisles may be lined with hardware, software, toothpaste, produce, even wearing apparel. But the very diversity of the products, as with the village counters of old, provides allure. And when these heaping counters also appeal to the customer's saving instincts because of their good value, the combination is irresistible. Since supermarket customers in the early days were drawn from a large radius, the comfort of free and safe parking was an item in the buyer's psychology. Hence, though the hitching post gave way to the free parking space, and oats have given way to gasoline, the situations expressed in front of a trading centre and in front of a supermarket are the same; the family has come a-picnicking to the market, to sift its values, and to buy. It was the very informal character of the first supermarkets in the early 1930's which fooled the competitors of the supermarket into believing these newcomers would never last.

MAJOR TRENDS IN FOOD RETAILING

The character of food retailing in Canada today may be gauged by the following facts:

1. The food chains are big and growing in importance. Today, the chains account for 43% of all food store sales in Canada, an amazing figure when you consider that just eight years ago the chains accounted for only 30% of food store sales. Somewhat similar figures apply in the U.S., although there the so-called voluntary group development has gone much further than in Canada.

2. Food distribution is heavily concentrated in a few stores, and a few large chains. Roughly 25% of all food store sales in Canada are made by only 2% of the stores, which in turn are owned by three companies! Nearly two-thirds of the retail food business is done by 12% of the stores.

3. Canadian supermarkets are *new*, and are *big*. Roughly half the supermakets today are less than six years old. The average size for new supermarkets on this continent is 17,000 square feet, with average annual volume of $1,810,000 per store. Nearly half the supermarkets on this continent do over $2,000,000 sales each year.

4. Supermarkets are carrying more items. In grocery items alone, the average store today carries close to 5,000 items, more than double the number carried nine years ago. And new products are putting supermarket shelf space at a premium.

5. There is a distinct trend towards increasing sales of non-food items in supermarkets. Industry data reveal that today's supermarkets carry 21 major non-food lines, representing 5% of supermarket sales. These lines include health and beauty aids, household goods, clothing, stationery, toys, and hardware. Ten years ago, 10 representative health and beauty aids were almost entirely drug store items; today, food stores account for over 50% of all sales of these goods.

6. Supermarket merchandising produces rapid turnover, which in some measure at least is an indication of efficiency. The average overall stock turnover rate for supermarkets is roughly 25 times a year. Some typical departmental turnover figures are: fresh produce, 155 times; meats, 144 times; dry groceries, 18 times; health and beauty aids and sundries, 10 times. There is thus tremendous variety in the merchandising requirements just from department to department.

As in the case of self-service, the development of supermarkets was opposed by all major corporate chain store operators. Canada has seen a nation-wide expansion only since the war. Today, these same organizations are vying to outdo each other in store size, services, costs, equipment, innovations in merchandise, departments, entertainment, prizes, contests

and what have you! So much so, that many thinking, experienced people in the industry are "just scared to death", and wonder where we are heading.

My personal opinion is that we have wandered away from the basic principle of low cost distribution, and a lean period in our economy would give birth to another basically sound method of distribution capable of further reduction in costs.

While corporate chains are now in the game, supermarkets in North America are by no means confined to their operations. Many independents and affiliated groups are leaders in supermarket development. As an example, by far the largest percentage of membership in Supermarket Institute consists of operators having one, two, three and four units only, and very efficient and effective they are too!

A few years ago, another innovation—The Shopping Centre—began to appear and is now reaching unbelievable proportions. In it is housed every conceivable retail operation from a hairdresser to a hardware store.

This new retailing approach was born out of the problem created by urban and suburban housing. Regional planning groups had been working for years on this problem, and the result was the emergence of the shopping centre. In the very early stages it was rather conservative in size, but the widespread use of motor cars had much influence on the theory and practice of planning these centres. Today, the rapid development of these merchandise marts and plazas exceeds the fondest hopes of even an enterprising North American real estate agent . . . and that is something!

CONCLUSION

Where is all this going? May I quote from a study made by Foote, Cone and Belding of New York and Toronto, in September, 1958:

> In today's very competitive climate, it is important that marketing people learn all they can about the market place where their brands are traded to consumers for their cash. Tremendous changes are taking place in all types of retail outlets. New problems and new opportunities occur constantly. The continuing trends in the dynamic retail industry are toward:
>
> 1. Increased total volume — the result of the growth in high buying power, prepared foods, more items — and inflation.
>
> 2. Larger and larger individual stores — fewer smaller stores, fewer total stores, increasing concentration of business.
>
> 3. More and larger chain operations. The larger national chains are merging; new ones are forming. The surviving independents are grouping into voluntary and co-operative chains for protection.
>
> The present philosophy is one of "We stock what we need", which is a change from "We stock everything". Coincident with this changing philosophy that adversely affects advertised brands is a changing attitude favouring private brands. The industry as a whole is inclined to emulate the A & P Tea Company.
>
> I am not at all in sympathy with that; however, that is what is going on.
>
> Along with this there is a changing merchandising concept, wherein the big operators are merchandising their entire store to consumers. They are building a store personality and are merchandising their stores as the place for Mrs. Consumer to do all of her shopping.
>
> This activity by the retailers does mean that advertising, packaging, labelling and consumer promotions of manufacturers' or producers' own brands will be even more important to those brands' success in the future than they have been in the past.
>
> Today, the distributive trades are feeling their power. As they have grown and expanded with the rapidly concentrating pattern in food distribution, they have seen scores of the manufacturers change their selling and shipping methods, their packing and their packaging, to meet the trade's needs and demands.
>
> All this, they feel, is simply a part of facing the facts as they exist today. They are the buyers and they have no intention of upsetting their patterns and policies to accommodate any one supplier. Besides, they feel that both the vendor and retailer can profit from better, more streamlined operations. They are convinced that the changes they suggest, or sometimes demand, are reasonable, practical and warranted. Often, when the trade's recommendations for necessary changes are made by the manufacturer, it will result in greater co-operation immediately.
>
> They are always interested in any research that will show them how to sell greater volume, realistically. They are interested in facts, not salesman's "malarky".
>
> They appreciate an awareness of their problems by their suppliers. They appreciate any endeavours on the part of the suppliers that will

increase productivity. And they appreciate any help that will guide them to decisions involving greater volume, faster turnover and greater productivity.

The phenomenal population growth, through birth and immigration, is opening up entirely new markets. On that point, there are 1,500 new mouths to feed in Canada every morning. In the city of Toronto, from St. George Street to Bathurst and from College to Bloor, the morning news is read in 16 different languages every day. So the buyers in the stores are coming in and picking out merchandise from its appearance. For instance, any name that you think of means nothing to a person coming from some part of Germany or Switzerland or what have you. So they pick up the pretty packages, they pick out the exciting packages. Great concentrations of buyers attracted to supermarkets and shopping centres offer an avenue of merchandising development hardly appreciated even by those who brought these centres into being.

It is nothing to put a whole small Canadian city through a supermarket on Friday and Saturday in the City of Toronto now. Even if 200 of the 12,000, 13,000 or 14,000 people passing through pick up some socks that may well be either too large or too small, they will probably sell more socks than many department stores will sell in a day. I think that is something that should not be missed.

THE CLARK REPORT

On February 17, Dr. Robert M. Clark of the University of British Columbia presented his report, *Economic Security for the Aged in the United States and Canada*, to the Honourable J. W. Monteith, Minister of National Health and Welfare.

Dr. Clark's terms of reference required him "to conduct an inquiry into facts relating to old age security systems in effect in Canada and the United States, with particular reference to those features of the old-age and survivors insurance program in the United States which make it possible for higher benefits to be paid covering a wider range of contingencies at an earlier age than is provided under present legislation, and to report thereon as soon as possible."

Dr. Clark's terms of reference were ill-conceived if they imply, as they seem to, that some magical difference between the American scheme and our own allows Americans to receive larger benefits at an earlier age at a lower cost. The only way that larger benefits at an earlier age can be provided is by taking more away from the working population, by higher taxes or more inflation or both. Like any intelligent, well-informed citizen, Dr. Clark knows this and it is reiterated by implication many times in his report.

Dr. Clark has produced a stupendous work—861 pages. It is a good job—and as factual and unbiased as anyone could reasonably expect. . . .

In a sense, however, Dr. Clark does not come to grips with, or at least he has minimized, the fundamental issues. For example, almost all recipients of OASI pensions in the U.S. believe that they paid for their pensions through their contributions whereas, in fact, none of them has paid more than 10% of the value of the pension. Aren't such wide-spread but totally erroneous beliefs morally wrong and in the long run damaging to a great nation like the U.S.? Dr. Clark's report is concerned with old age. But can we isolate the problem of old age? If we are disposed to divert more of our national income to welfare measures, do we want to divert it to those fortunate elderly citizens who are healthy, happy and with independent means or would we prefer to relieve the squalor and despair of a young widow with several children? Dr. Clark often refers to the U.S. social security fund of $23 billion but he does not explore its real meaning. Is it not just a figure representing the excess of past social security taxes collected (and spent) over past pensions paid? Is it worth any more than any government's promise to pay future pensions out of future taxes or inflation or both and, if not, is there any *real* difference between the way the Americans finance OASI and the way we finance Old Age Security? All this is not critical of Dr. Clark. After all, he was hired to get the facts, not to philosophize.

—Canadian Actuarial Bulletin,
William M. Mercer Ltd.,
April, 1959.

Soviet Trade and Canadian Business

Much has been written of late concerning the so-called Russian Economic Offensive, but few of the questions most important to businessmen have been answered. In this article, the author attempts to examine Russian trade from the viewpoint of the Canadian businessman — the nature of Russian trade moves, their impact to date, and their likely future directions.

J. G. Myers

Canadians, on a per capita basis, are the world's most active international traders. The total volume of Canadian trade ranks fourth behind the United States, the United Kingdom and the Federal Republic of Germany.[1] In 1958, Canada's total trade was $10.1 billion, accounting for nearly 30% of her Gross National Product.[2] A major decline in Canadian trade would clearly create serious economic problems for this country.

Recently, Russia has expanded trade with her satellites and other parts of the world, and is now the world's sixth trading nation. Although her motivations and capabilities are largely unknown, the effects of this activity have already been felt by many Western industries, including some in Canada. In the political and economic realm, Russia has declared a new kind of cold war, one in which she is deliberately and systematically trying to outproduce and outcompete the West. One of her goals is to capture the foreign markets of Western producers. In many cases, the goods she is selling or trying to sell on world markets fall in the category of primary resource materials, products which Canada and Russia both possess and produce in large quantities.

The dangers to Canada of this so-called Russian Economic Offensive are great. The Honorable C. Douglas Dillon, Under Secretary of State for Economic Affairs in the United States, described the situation as follows:

> Thus, the thrust of Soviet competition will fall mainly on the less developed countries, and to a degree, on such other nations as Canada which are the normal suppliers of similar products to the industrialized nations.

Total Canadian exports levelled off in 1958 from a steady, year-by-year increase up to that time. This decline was clearly due to many factors, but its timing, coinciding with the onset of the Russian movement into world markets, cannot help posing the questions: Are the effects already being felt? What has been the impact on Canadian business? What are the likely future effects of the Russian economic offensive? What can Canadian businessmen and government officials do to offset the Soviet threat?

These are difficult and complex questions. Their scope has prompted the writer to divide the subject into two parts: the first, concerning the nature and impact of the Russian trade moves to date, will be discussed in this article. The second, a description and analysis of the alternative solutions that have been offered, is to be published in a subsequent issue of the *Quarterly*.

In this paper, attention will be given the following topics: the nature of resources and output in Rus-

[1] *Canada Year Book* 1957-58, p. 988.

[2] *Foreign Trade* Magazine, March 14, 1959, p. 2.

sia and Canada; Russian and Canadian trading facilities; comparative trading statistics; Russian trading movements; their impact to date on specific Canadian industries; their likely future direction; and their overall effect on Canadian business.

CANADIAN AND RUSSIAN RESOURCES

Canada and Russia are the two largest national land areas in the world. They have similar latitudinal locations and climatic conditions. Both nations are concentrating on developing their basic natural resources, a fact which, in some respects, gives them a similar sociological environment. They are rich in natural resources, particularly mineral, wood and agricultural products. The nature of the resources of the Sino-Soviet bloc[3] may be seen in the following table:

TABLE 1

	Sino-Soviet Bloc	U.S.A.	Rest of Free World
	(Percentages of total world resources)		
Steel	24%	37%	39%
Coal	36%	26%	38%
Crude Petroleum	12%	42%	46%
Primary Aluminum	17%	45%	38%
Electric Power	18%	41%	41%
Merchant Fleets	3%	25%	72%

Source: *Background for Mutual Security,* Fiscal Year 1958. (Washington: G.P.O., 1958) p. 21.

While there are similarities, there are, of course, many basic differences in the economic situations of Canada and Russia. The internal markets (17 millions in Canada, 200 millions in Russia) form the basis for many of these differences. Canada, for example, is forced to export much more of her production because of the small size of her population. The Canadian-U.S.S.R. parallel in resources is by no means complete; unlike Canada, Russia has inadequate supplies of copper. Also, although very large, her agricultural industry is apparently unable to support the growing demands of her population for food. Canada lacks tin. Russia exports non-agricultural machinery in large quantities, whereas this is Canada's largest import. Russian trade is centrally-controlled and directed; Canadian is dependent on the imagination and initiative of individual businessmen.

[3]The Sino-Soviet bloc includes U.S.S.R.; Soviet European Satellites, which include Albania, Bulgaria, Czechoslovakia, Soviet Zone of Germany, Hungary, Poland and Rumania; China, which includes Mainland China, Manchuria, Inner Mongolia, and Tibet; Outer Mongolia; North Korea; and North Vietnam.

The clash of Canadian and Russian trade activity has, so far, occurred mainly in the non-ferrous metals group. Table 2 shows a comparison of Canadian and Russian exports in 1957:

TABLE 2

Commodity	Canadian* Exports, 1957 ($000,000)	Russian** Exports, 1957 ($000,000)
Newsprint Paper	715	10
Wheat	380	438
Wood Pulp	292	75
Planks and Boards	282	135
Nickel, primary and semi-fabricated	248	....
Aluminum, primary and semi-fabricated	229	51
Copper, primary and semi-fabricated	162	51
Iron Ore	152	125
Petroleum, crude and partly refined	141	265
Uranium ores and concentrates	128	....
Asbestos, unmanufactured	107	18
Farm implements and machinery	67	48
Barley	68	78
Whisky	67	....
Zinc, primary and semi-fabricated	65	18
Fish, fresh and frozen	63	19
Wheat flour	61	....
Non-farm machinery	57	605
Cattle, chiefly for beef	42	107
Aircraft and parts	40	....
Total, including all commodities	$4,839	$4,382

**Foreign Trade Magazine,* March 14, 1959.

***Foreign Trade Returns of the U.S.S.R.,* 1955, 1956, 1957. The Russo-British Chamber of Commerce.

The commodity composition of Canadian exports remained roughly the same in 1958, with the exception of large increases in uranium, aircraft and parts, and cattle. Although figures are not available for Russian exports in 1958, material gathered from several publications indicates that their exports of platinum, asbestos, aluminum, and petroleum have increased considerably.

ORGANIZATION OF RUSSIAN TRADING

The most significant facet of Russian trading activity is that it is controlled through a central trading authority. This central authority, called the Ministry of Foreign Trade, directs practically all of Russian foreign trade and has the responsibility for setting the plan of exports and imports. This system of centralized control is in direct contrast to the trading situation in most Western countries, where the quantity and direction of foreign trade is determined by private interests.

Under its central trading organization, Soviet trade policy has been directed towards achieving bilateral, country-by-country, balancing of imports and exports. Commenting on this situation, Professor H. J. Berman of the Harvard Law School, says:[4]

> The existence of contingents is a serious handicap which makes for discrimination, yet it is part of the system of bilateral trade agreements which Soviet Russia prefers in view of her planned economy. Unlike Poland or Eastern Germany, where in special cases direct trade deals between producing centres and foreign customers are allowed, the Soviet Union insulates her industrial units from contacts with foreign customers and leaves the foreign trade exclusively in the hands of Foreign Trade corporations.

Although this type of organization has many advantages, observers have also noted that the system suffers from inefficiencies and lack of competitive incentive. Professor Berman[5] points out that "the technique of world trade is not different in Soviet Russia, but tremendous conservatism, strict application of commercial rules and lack of flexibility with regard to the development of commercial law, are a very serious handicap."

RUSSIAN TRADE MOVEMENTS

To this point, we have noted the similarities between Russia and Canada in terms of resources, and the basic difference in the way in which these two countries approach the business of international trade. We have also seen that Russia has clearly declared her intention to use her resources to wage economic war on the West. What have been her movements to date in this trade war?

The increase in Russian trade activity can be seen in the following volume index for total trade turnover[6] (1938=100):

1950	254
1955	496
1956	557
1957	620

In 1957, total Russian trade[7], converted to American dollars, was approximately $8,300,000,000, slightly less than Canada's $10,560,000,000. The trade balance, in contrast to Canada, was favorable, so that her exports of $4,400,000,000 were almost equal to Canada's $4,930,000,000. The percentage of exports from Russia to bloc[8] countries has decreased from 85% in 1955 to 74% in 1957, indicating that her exports to non-bloc countries have increased substantially. In 1957, the U.K., Finland, United Arab Republic, India, Yugoslavia, German Federal Republic and France were the leading non-bloc recipients of Soviet exports. Machinery and equipment, fuel, metals and manufactures, and grain were the leading exports, making up about 58% of the total. Textile materials, timber and paper, ores and concentrates, industrial consumer goods and other miscellaneous items such as meat and fur made up the balance.

Perhaps more significant than this activity, however, have been the techniques used in trading. Perhaps the leading example comes in pricing: Russian prices are often quoted at a set percentage below competition. Unlike the more usual trade offer of "we will meet competitive prices," the Russian offer has been "we will sell at 10% below anything your Western supplier gives you". Dumping, barter deals and long-term, low-cost credit have also been used to lure Western customers into the Russian fold.

One explanation advanced for the use of such unorthodox techniques has been that the Russians either don't know or don't care what the product costs. In the opinion of one Canadian government official, the costing of Russian products must be "almost an impossible job" because many production costs are unknown and many non-production costs and community benefits are supported by industry. The obvious answer to continued below-cost selling, if indeed that is what the Russian moves represent, is that it cannot continue in any one industry without government subsidization. That is, funds must come from somewhere to cover the cost that is not covered by revenue from sales. Certainly, this practise is far from unknown in the West: government subsidization has for some time been a fact of life in Canada and the United States, particularly in the agricultural industries. It has resulted in the build-up of surpluses, the disposal of which in world markets has many of the same effects and creates many of the same problems as so-called below-cost selling by the Russians. Such sales, whether Russian or Canadian, are subsidized by the citizens of the selling country. If Russia, because of the extent of government direction and control, can obtain greater sacrifices from her people, then she will have a decided advantage in the "economic war" in which we are engaged. Such activity may, of course, result in some short-

[4] A speech entitled "Negotiating Commercial Transactions with Soviet Customers", given in a presentation to the International Management Division of the American Management Association, New York, November 5-7, 1958.

[5] Ibid.

[6] *Vneshnaya Torgovlya,* Nos. 4 and 8 of 1958.

[7] *Foreign Trade Returns of the U.S.S.R.,* 1955, 1956, and 1957, The Russo-British Chamber of Commerce.

[8] East Germany, China, Czechoslovakia, Poland and Hungary.

run benefits for some groups of Western consumers, although over the longer term it is to no one's benefit if Russia thereby succeeds in putting key Canadian and Western industries out of commission for political ends.

IMPACT ON CANADIAN BUSINESS

The impact of Russian trading activity in Canada has been felt most to date in the non-ferrous metals industry. The industries most directly affected have been:

1. Aluminum
2. Zinc
3. Asbestos
4. Platinum

One of the most widely-publicized incidents in the economic offensive came in the aluminum industry, where the Aluminum Company of Canada is a key world trading figure. A representative of Alcan's parent, Aluminium Limited, described the situation in this industry as follows:

> Unconfirmed reports indicate that Russian aluminum production is expected to reach 1 million tons by 1960-61. Her aluminum first appeared on world markets in 1955 at premium prices and in 1957, when world supplies were more abundant, she began selling to the U.K. and western Europe at prices below the prevailing world level and—in the U.K. at least — guaranteed a sales price below that of Canadian metal. In order to maintain its traditional market in Britain and to rationalize the unequal competition from a state organization which could afford to disregard production costs, the Aluminum Company of Canada applied to the U.K. government for imposition of an anti-dumping duty. This was not imposed because, in October 1958, the U.S.S.R. voluntarily agreed to limit its exports to the U.K. Since then supplies of Russian ingot have been scarcer and the prices have firmed. While it is possible that it might again suit Russia's purposes to re-enter Western markets as a cut-rate seller, it is equally evident that there is a vast unfulfilled civilian consumer demand for aluminum in Russia which in the long run may prevail against the continued export of the metal.

Mr. Howard W. Allen, Vice-President and Director of Public Relations of the Johns-Manville Corporation, says the following about his company's experience in the asbestos industry:

> Our Canadian sales of asbestos fibre have been affected, particularly in Europe and South America. To meet this situation we have stepped up our sales program with emphasis on the high quality of Canadian asbestos fibre, the assurance of an adequate and regular supply and the speedy adjustments of any complaints on the part of our customers.

A specific example of Russian price-cutting occurred in the platinum industry, where the price of platinum on the London exchange was forced from $103 an ounce in January, 1957 to $52 an ounce in December, 1958. Other similar incidents have occurred in the petroleum, edible oil and meal industries.

FUTURE IMPACT

Not all Canadian exporters have been affected as yet, but a number expect to feel the effects some time in the future. Witness the comment of a senior executive of a large Canadian pulp and paper company:

> Our company has not been directly affected because of the small amount of Russian export (1½% of total world export of newsprint) which is directed mainly to far Eastern countries. Because of their dollar shortages, they purchase only a limited amount from Canada. However, lower prices and more liberal terms for pulp have recently been offered by the U.S.S.R. in European markets. Their pulp and paper industry is not highly developed but their forest resources are very large. If the U.S.S.R. chooses to develop a large pulp and paper industry to use as an economic weapon, there is no doubt that they could do so. This would become a very serious problem to the Canadian pulp and paper industry and thus for the Canadian economy.

Another paper company executive reports that Russian sales of unbleached sulphite landed in New York are expected to reach 200,000 tons in 1958 compared with 2,000 tons in 1957. The recent Russian price quotations on this material vary from $111 to $116 per ton delivered at the consuming mill. The equivalent Canadian price was reported as $135 per ton.

The evidence to date on the overall impact of Russian trade moves has been fragmentary at best. In order to bring the matter into perspective, the University of Western Ontario's School of Business

Administration undertook a survey of 300 Canadian exporters in February and March of 1959.

The excellent response in some way, measures the interest in and dangers of the situation. Over eighty questionnaires were returned, representing 31 secondary industrial manufacturers, 24 primary industrial manufacturers, 19 consumer product manufacturers and six service companies. The most frequently mentioned foreign markets were Central and South America, British West Indies, U.S.A., U.K., Europe, Africa, Far East, and Australia-New Zealand. The replies to specific questions asked about the impact of Russian trade activity are shown in the following table:

TABLE 3	*Yes*	*No*	*Uncertain*
1. Is Russia an important producer of products competitive with yours?	17	38	7
2. Is Russia now an important competitive force?	9	51	1
3. Do you expect Russia to become an important competitive factor?			
within 5 years	20	15	6
within 10 years	15	12	
4. Would you classify the Russian activity as dumping?	3	10	
5. Should the Canadian government encourage trading with Russia on non-restricted items?	33	11	1

About 25% of the respondents who were asked: "Is Russia an important producer of products competitive with yours?" replied that she was. The replies that definitely responded "yes" were mainly in the primary resource industries such as steel, lumber and newsprint, platinum, asbestos and uranium. Only one food products producer and one fish packer answered "yes", and replies from rubber and chemical producers indicated that they did not at present consider Russia an important competitive producer. One chemical company executive explains that his reply was negative because the Russian chemical industry was in a very elementary stage of development, but that "extreme efforts" were being made to improve this situation.

Is Russia now an important competitive force? Fifteen per cent answered "yes", all of whom had answered "yes" to the previous question. As a picture of Russian trade activity, however, this is somewhat distorted because many of the "no" answers came from producers who did not export or exported only a small quantity to a market in which Russia was not selling.

Perhaps the most interesting fact that emerged was that 50% of the companies responding indicated that Russia would become an important competitive factor within five years and 56% within 10 years. It is significant that a large number of this group were secondary manufacturers. Those predicting future Russian competition were manufacturers of electrical apparatus, machinery, tools, plumbing fixtures, aircraft, chemicals, farm machinery, petroleum, rubber, uranium, steel, lumber, newsprint, canned salmon, logging equipment, auto accessories and coal oil stoves. The replies indicate that as the Russian economy develops, a wider variety of competitive products will be produced. Whether or not they will be used to expand international economic warfare will depend upon the ability of the government to sacrifice domestic needs for political gain. Perhaps all that can be safely said at this time is that the potential to do so will be there.

WHAT IS BEHIND THE RUSSIAN MOVES?

Is Russian trade activity motivated primarily by politics or economics? As one author puts it, "must we now conjure with the operations of a monolithic trading body, insensitive to its national structure of comparative costs, catering to a national demand which can absorb more of virtually any product, offering to buy and sell whenever a political advantage is to be cheaply gained."[9] A wide divergence of opinion exists.

One observer, M. J. Kallen, feels that political considerations dominate Russian trade:

> Analysis of communist maneuvers in the economic war with the free world clearly establishes that the profit motive has been subordinated to political and strategic considerations, overlaid with pressure tactics applied with no attempt at subtlety.[10]

President Eisenhower, in his message to Congress on February 19, 1958, speaking about Soviet aid, said:

> If the purpose of Soviet aid to any country were simply to help it overcome

[9]Vernon, R., *Trade Policy in Crisis,* Princeton University.

[10]"Plan and Scope of Russia's Economic Warfare", M. J. Kallen, *The Magazine of Wall Street,* July 19, 1958.

economic difficulties without infringing its freedom, such aid could be welcomed as forwarding the free world purpose of economic growth. But there is nothing in the history of international communism to indicate that this can be the case. Until such evidence is forthcoming, we and other free nations must assume that Soviet bloc aid is a new, subtle, and long-range instrument directed toward the same old purpose of drawing its recipient away from the community of nations and ultimately into the communist orbit.

A somewhat different view has been put forward by Mr. Alex Nove of the London School of Economics. Mr. Nove stresses the limitations under which the Russians carry on economic warfare, and suggests that much of the trading activity to date has been motivated more by necessity than politics. This necessity arises from the surpluses that must be disposed of and the pressure to export to pay for the import of products which she does not have or does not want to produce. "Undoubtedly," he says, "some Soviet behaviour in this field is political, but we make it quite impossible for ourselves to identify such behaviour if we assume *ex hypothesi* that all of it is so motivated."[11]

From the evidence presented, it appears that Russia will use her trade for political advantage when it is possible to do so. The obvious question arises: what nation does not and would not? Deliberate price-cutting and market disruption, particularly if it is done inconsistently, cannot really be considered politically advantageous, as such practises jeopardize the reputation of the supplying nation. A more dangerous challenge to the West than these sporadic interruptions of a few markets is the possibility that Russia will be able to move into world markets on a long-term, well-planned, and competitive basis governed by sound trading principles. The customer, in this circumstance, would be forced to choose sides, and there is little doubt that, with our present free enterprise system and high standards of living, we could not provide the goods as cheaply as Russia.

CONCLUSION

Canada and Russia have similar resources in many fields, and both are presently producing primary products in excess of their internal domestic needs. Russian products, however, will increasingly be used to service the demands of her own rapidly-expanding internal economy. This will not necessarily decrease the volume of her trade, as many products will have to be supplied from other nations and exchange must be procured to pay for them. In dollar volume, trading with Western and Sino-Soviet bloc countries will probably increase; surpluses in some product classifications will become available, and non-economic considerations may well dominate future trade moves.

The effects of Russian trading activity have recently been felt by some Canadian companies, particularly in the non-ferrous metals group. Other producers of chemicals, airplanes, farm machinery, petroleum products, rubber, canned salmon, uranium, steel, electrical fixtures, lumber, newsprint, automotive accessories, coal oil stoves and logging equipment are not so far affected but likely to feel the impact within five or 10 years.

Russian trading to date has probably been motivated more by economic necessity than by political ambition. Politically-directed trade is probably to be feared less than trade based on sound economic principles. Russia's centralized trade structure undoubtedly has advantages from a control and planning standpoint, but also must suffer the consequences of bureaucracy and rigidity. Canadian businessmen, on the other hand, are at a serious disadvantage in this trade war because of a lack of central coordination and the inability to offer such consumer incentives as liberal credit terms. The existence of the Canadian trade commissioner service, private company associations, and other government services help to offset these disadvantages to some extent, but there is much more that can be done.

The threat is there. Some industries have already felt its effects. What *can* be done about it? The action taken by government and private industry to date, and some additional suggestions as to what might be done in the future, will be discussed in a subsequent issue of the *Quarterly*.

[11] "Soviet Trade and Soviet Aid", *Lloyd's Bank Review*, January, 1959.

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SPLIT INSURANCE FUND?

Since 1950, two Ottawa administrations have been playing fast and loose with the Unemployment Insurance Fund.

But a little sense displayed now by our legislators could forestall financial leukemia in the fund's future. There is a way out.

What was begun as a true insurance program to provide short-term assistance for occasional unemployment among year-round workers has now become, in large part, a welfare program for loggers and fishermen who are able to find work only part of the year.

Their contributions don't come anywhere near equaling the benefits they receive. The difference is made up by contributions from regularly employed workers.

The proposal now is to raise contribution rates 30% and to make a start at adding another huge group of seasonal workers to the fund—those in agriculture. This will simply mean that the industrial worker and employer will be making welfare payments to farm workers as well as to loggers and fishermen.

This is manifestly unfair. An entirely new approach to unemployment insurance in Canada is needed.

Perhaps we should have not one unemployment insurance scheme, but two. One could cover year-round workers and could pay its own way. The other could cover seasonally employed loggers, fishermen and farm workers and its resources could be beefed up by drawing on the general funds of the state.

A precedent for this is to be found in the U.K. More than 20 years ago its unemployment insurance scheme—after being stretched to the limit by political pressures—was returned to insurance principles and a separate fund, which could be bolstered from general tax revenues, was established for farm workers.

Canada's seasonal unemployment is a national problem, not one which industrial employers and employees should be made to shoulder. Twin funds would separate welfare from insurance and put the burden for each where it belonged.

—The Financial Post

New Dimensions in Creative Planning

While agreeing that long-range planning deserves the attention it is increasingly receiving from managers generally, the author of this article highlights what he feels is a danger of misplaced emphasis. He contends that frequently managers are given to speculating about the future before they have acquired a much-needed sensitivity to the present. But better still, read this challenging article yourself and compare the author's point of view with your own.

STEWART THOMPSON

"Now we've got a big giant with no business to feed it."

Two years ago these words were exclaimed by a senior official of one of Canada's well-known companies. He was talking of the plans for growth and the ideas for continuous expansion upon which he and his colleagues had been formulating their decisions. Then—suddenly—there was a new image of their corporation. Not a dynamic, profitable, growing business, but a bizarre, sprawling enterprise with thousands of employees and "no business". He was exaggerating his point, perhaps, when he said there was no business. There were some orders. But clearly the managers of that company faced a new and startlingly different kind of problem which their company had not faced in about 30 years, and which many of its executives had not faced at all.

No longer was the emphasis on developing business for five or 10 years into the future. A new direction had to be mapped. The emphasis had to be placed on creating business for today. There was a big shift, a shift from a plan for expansion to a plan for survival!

Planning, whether it be minute-to-minute planning, or the kind of planning that attempts to blueprint the needs of the business 20 years from now, is an "idea", or rather, a particular combination of ideas. Planning is a point of view, not a technique. Planning is a product of the nervous system, not of the hands. But then anything we do is based on some sort of point of view. A frequent source of difficulty is that our point of view is so obvious we don't know—have really never stopped to examine —what it is. We take our point of view for granted. And things taken for granted often have a strange way of getting us into difficulty.

Consider this quotation from the Canadian edition of *Time,* March 2, 1959:

COMMUNICATIONS

The newly created Board of Broadcast Governors last week served notice to private radio broadcasters that they must lift their standards of taste and public service. Out to seven stations . . . went summonses requiring owners to appear and explain why their expiring licenses should be renewed.

The board's performance standard comes generally from its charter, the Broadcasting Act of 1958, which makes the BBG responsible for "the provision of a varied and comprehensive broadcasting service of a high standard that is basically Canadian in content and character." Reducing this charter to specifics, the BBG thinks that at its worst, Canadian radio is a cheaply produced alternation of rock 'n' roll, commercials and news bulletins. It pointed out that among the seven named offenders, five give from 72% to 84% of their time to recordings. The board also believes that at its best, much of Canadian radio falls short of the ideals of a balanced fare . . .

BBG Chairman Andrew Stewart, 55, former president of the University of Alberta, will ask the summoned stations to explain their "philosophy of broadcast-

ing" and their "method of serving the listening public."

On March 18, members of the Board of Broadcast Governors, according to newspaper reports, argued that privately-owned radio stations had a responsibility to offer programs which "could contribute to an elevation of public taste." On the other hand, owners of two of the radio stations who were required to appear before the board contended that the public wanted popular music and the stations must continue to broadcast what their audiences desired to hear. An owner of one Toronto station agreed with the board that a station had a responsibility in improving "the general national culture." Mr. Carlyle Allison, permanent member of the board, opposed the theory that the public must be given what it wants and nothing else.

What is a broadcasting station? What is a "philosophy of broadcasting?" What constitutes a "service to the listening public?" How many advertisements in an hour exceed a reasonable limit? Should there be a limit? If so, how should it be determined? What is the responsibility of a broadcasting company to contribute to raising the "general national culture?" What constitutes broadcasting at its worst, and broadcasting at its best? The broad dimensions of these questions—questions that are basic to doing today's business today—reveal the perplexing issues, the vastness of the kinds of alternatives from among which a business must somehow make a choice, or a combination of choices. These kinds of broad problems face not only broadcasters but other businessmen, as well as those who are influential in such fields as education, immigration, etc., in terms of reference appropriate for these activities.

Consider the business of national defense. First of all, we are increasingly aware that there is no such thing as national defense, only inter-national defense. The need for formulating a point of view, for recognizing the dimensions of the problem, is the first requirement for a comprehensive plan. Nathan Brodsky, of the Office of the Assistant Secretary of Defense, Washington, D.C., puts the new dimension of planning from the point of view of national defense in these terms:

> . . . defense cannot be measured in terms of absolutes.
>
> In making decisions on defense, we must balance alternate choices. Because we strive for maximum national security within a given area of resources, the criteria are basic. We must determine, for instance, whether our goal is enough airlift to support two or more limited wars simultaneously. Is our goal maximum civil defense? Or is it maximum strategic air strike? Or do we want preparedness for small wars only? Or is it any combination of these goals?
>
> Where we do not deal in absolutes, we must establish criteria if we are to exercise the logic of choice.[1]

THE NEW DIMENSION

Up to very recently when the businessman spoke of planning he had in mind the process of anticipating events he could virtually count on taking place. If a new plant were to be constructed, the businessman was sure to "plan ahead" so the plant would be near to the sources of personnel, power, water, transportation, and so on. He knew these things had to be accounted for. He knew that if a plant were built outside city limits and if the problems of transporting workers back and forth were overlooked, the company would be handicapped in attracting and keeping personnel. It is this sort of planning, whether it be with regard to developing new sales territories or laying out a new office, that is carried on in all but the most unsophisticated organizations. The *anticipation of the known* was what the manager had in mind when he spoke of his "plans". The safest thing a businessman could do was to eliminate risks, in so far as it was possible to do so. To be sure, anticipation of the known is still an important area of managerial concern. But the new era demands a new perspective, a shift in emphasis, a reorientation of point of view. Now the businessman is discovering that his business is safe only to the extent that it is taking risks. He is discovering that *the function of management must now incorporate the process of generating risks in clearly-defined areas of activity.* Among the first to make this observation, and to make its impact clear to businessmen, was Peter F. Drucker.

> Innovation, as we now use the term, is based on the systematic, organized "leap into the unknown". Its aim is to give us new power for action through a new capacity to see, a new vision. Its tools are scientific; but its process is of the imagination, its method the organization of ignorance rather than that of known facts.[2]

The label planning now symbolizes a whole new dimension of managerial awareness and concern, and a whole new dimension of managerial influence. This new dimension of planning requires a new kind of competence, a new kind of perspective

[1] *Armed Forces Management,* March, 1959.

[2] *Landmarks of Tomorrow,* by Peter F. Drucker, p. 18, (Harper & Brothers, New York, 1959).

on the purpose of a business and on the function of management. As portrayed in a recent advertisement of the Boeing Company, the manager of 1959 is:

> playing a chess-like game, in a section of space, with pieces of uncertain value, on a skewed board, against an unknown opponent.

As there are new potentials, so are there new hazards. A new danger occurs when we begin to recognize the potentials of the future. That danger is the under-evaluation of the present.

OVERCOMING THE DANGERS OF PLANNING FOR GROWTH

It is no news to observe that long-range planning is an idea foreign to many managers. Some managers expand their businesses through the sporadic accumulation of new equipment, factories, and products, without having convictions as to the particular purposes the business is trying to achieve, without having some clear ideas as to the direction and limits of company growth. Growth is more than a process of generating risks. Growth is the process of generating risks *in clearly-defined areas of activity*. More than one business has expanded into extinction because there were no clearly-defined areas of activity, no organized system of evaluation, no overall criteria, no distinction between growth and expansion. The distinction is subtle, and it is also crucial!

Some managers become occupied with the plans of their business for the next five, 10, or 20 years without having first examined the point of view from which they are making such plans. There is a tendency to plan for the future without first examining the particular competences, the unique experiences, the present unexplored potentials, the ideas and doctrines "taken for granted" that are institutionalized into the enterprise and unknowingly at work today shaping the business tomorrow.

It is convenient to have such words as past, present, and future. Unfortunately, when we speak of plans for the future we can be led to evaluate our plans as if the present were unimportant and the future our primary target. We can speak of yesterday or of 10 years ago as if it were the dead past, long since forgotten even though the experiences, the teachings, the ideas of 20 or 40 years ago or of generations long since dead are the agents actively at work now creating our present perspective on "the future". These three words, past, present, and future symbolize useful and important ideas. But the manager should not overlook that he is working in one medium, the *past-present-future*. Unless his point of view is in balance, he runs the risk of destroying the inner logic of his business and replacing it with chaos and confusion.

THE COMPANY CREED

In order to resolve the orientation of a business with regard to its past experiences, its present competence, and its future objectives, managers of a number of firms have formulated company creeds. Other titles in wide use for statements of this nature are: "Basic Objectives", "Our Basic Policy", "Guiding Principles", "Our Aim", etc.[3]

It may be useful to distinguish two broad purposes of the kinds of statements we are calling company creeds:

1. To formulate and state the present key assumptions and ideas basic to the operation of a particular enterprise, and which are the foundation of its relationships to customers, owners, workers, suppliers, the community, etc.
2. To formulate and state certain broad objectives which, although not sufficiently achieved at present (like teamwork, etc.), are to be achieved to an increasing degree in the future.

Here is an example of a company creed in use today in one Canadian firm:[4]

Primary Responsibilities
of
CANADIAN MARCONI COMPANY

1
TO THE SHAREHOLDERS,
for successful results

2
TO OUR CUSTOMERS
for price, quality and service

3
TO OUR EMPLOYEES
for fair dealing and continuing opportunity

4
TO OUR INDUSTRY AS A WHOLE
for constructive and ethical action

5
TO CANADA
for economic and social advancement

[3]Under the title of "Developing A Management Philosophy" in the Fall, 1953 issue of *The Business Quarterly*, this writer explored areas of usefulness of company creeds. Since then at the request of the American Management Association he has prepared a more complete study on the development and use of company creeds. The 127-page AMA Research Study, *Management Creeds and Philosophies*, contains the most definitive information believed to presently available on this topic.

[4]See *Management Creeds and Philosophies*, Research Study No. 32, American Management Association, for a description of the development of this company creed, as well as that of four other corporations, and the related experiences of over 50 other companies.

The statements developed by some companies are shorter than that of Canadian Marconi. Others are from 12 to 20 or more pages in length. That such a statement is brief, or that it is lengthy, is not significant outside the context of the particular company in which it was developed. Furthermore, the usefulness of such a statement to a particular company cannot be discovered from either its length or its wording.

Two tables from the AMA Research Study are of relevance to this article.

Table 1

PURPOSE OF THE COMPANY CREED

(Responses of 51 companies to the question: "What purpose was the creed intended to serve? Why was it prepared?" Some companies cited more than one reason for writing a company creed, thus accounting for the total of 73 responses.)

Response	*Number*	*Per Cent*
Formalization and clarification of basic philosophy and objectives of the company	26	36%
Oriented to employee relations	12	16
Creed was intended to be a guide to basic operating procedure (emphasis on immediate operational procedure rather than long-term goals and principles)	11	15
Oriented to stockholders (often emphasizing profit as source of stockholder benefits)	6	8
Oriented to customer relations	4	5
Oriented to public relations	3	4
Unclassifiable	8	11
No answer	3	4
Total	73	99%

Company creeds serve different kinds of purposes. In some companies the main purpose has been to produce a fine document which had created some enthusiasm at one time but which has little relevance to what actually are the ideas and objectives of the managers. In other companies the development of a company creed, that is the process of thinking through, discussing, and making statements about those vital influences that are shaping the destiny of the enterprise, has provided an important medium for organizing and clarifying the otherwise random and perhaps unconscious purposes and ideas that are at work, creating the future. In these companies the *process* of formulating and clarifying the ideas symbolized by the creed was of far greater importance and usefulness than any document which resulted.

Table 2

EFFECTIVENESS OF COMPANY CREEDS

(Responses of 51 companies to a question on the effectiveness of creeds. Some companies made more than one response, thus accounting for the total of 95.)

Response	*Number*	*Per Cent*
Made more effective development of managerial policy possible	35	37%
Improved employee relations	25	26
Improved community and/or public relations	18	19
Helped in other ways	9	9
Benefit hard to measure or define	4	4
Creed is of no assistance or "don't know"	2	2
No answer	2	2
Total	95	99%

A CASE IN POINT

THE OBJECTIVE OF ANSUL CHEMICAL COMPANY

> The objective of our company and of everyone of us here at Ansul is to manufacture and sell products useful to our society and to receive an adequate return for them.
>
> We do this while working together in an atmosphere of friendship and appreciation of each man's importance.

This statement of Ansul Chemical Company was written in 1948. Its purpose, according to E. D. Schlutter, Staff Assistant to the President, was to emphasize the human values of the business, which, in Mr. Schlutter's words, "is something that Ansul has worked at diligently for the past 11 years to develop to even a higher degree in our present so-called 'participative management philosophy'." This statement hangs in the reception lobby of Ansul's offices.

The wording of this statement was the work of Robert C. Hood, president, when he was secretary of the company. According to Mr. Schlutter, Mr. Hood felt that the company had been operated over the years on a philosophy or a basis that should be reduced to writing, if at all possible, for the guidance of the future managers of the company. Commented Mr. Schlutter: "As you can tell from the creed itself, we worked in a certain way with our people and for certain objectives. It was this background that Mr. Hood tried to get into writing for the guidance of future managers. The creed was never 'promoted' to the total work group of our company and really never has been. It was felt that this doctrine or creed was primarily for the guidance of management, but we have had occasions when the laboring man would refer to the creed and say that a certain decision or judgment did not seem to be in keeping with the creed of our company. There have also been occasions when the creed was referred to by the working man as having been carried out in a certain action taken by management."

Mr. Schlutter advises that "we have still not promoted or published the creed among our employees although it has been used as the basis for several interesting actions. The first occasion was shortly after Mr. Hood took office. He had a meeting with the major managers in the company in which they were to pursue the functions, responsibilities and so forth of their jobs. They started with the creed, or the corporate objective as we call it, and asked themselves the question, 'Are we really doing this and is this what we intend to be doing?' Later we used the creed as a basis or starting point for creating total corporate objectives."

It is not possible for a person outside the context of the company concerned to tell from its printed creed how or in what way a particular company is managed. There is little doubt that many company creeds do not represent, and in some cases are not intended to represent, what are actually the objectives and rewards the managers seek. Even so, this does not lessen the benefits derived by some managers who have placed importance upon the periodic evaluation of general company objectives and the principles to be followed in achieving them.

There are dangers in making statements about the "dignity of the individual human being" of the kind found in some company creeds. Chris Argyris, Department of Industrial Administration, Yale University, expresses his opinions as a social scientist on company creeds in this way:

> In my experience company creeds tend to cause discontent because, although sincere, they are hardly ever in tune with realities as the employee experiences it. It is nice to read that one is to be treated with "dignity", that individuals are "important," etc. It is disconcerting, however, to compare it with the realities of life as caused by the fundamentally authoritarian nature of organization structure and managerial control.
>
> Directive leadership, if it exists in the plant (and it does in most), only serves to compound the felony.
>
> On top of this, if the creeds remain even though they do not mirror reality, they only act to serve notice to the employee who *is* really in power. After all, only the power people have the "right" to be contradictory and to continue this contradiction by blaming the difficulties on others.

In his article, "Search for a Managerial Philosophy" in the September-October, 1957, issue of the *Harvard Business Review,* O. A. Ohmann, Director of Organization Planning and Management Development for The Standard Oil Company of Ohio, prophesied an increase in the number of companies who will give attention to formulating company creeds. A paragraph from Mr. Ohmann's article is quoted below:

> It is worth noting that the top managements of more and more companies are systematically reviewing the history and development of the company, diagnosing its real strengths and weaknesses, determining the economic and social functions which it can serve most profitably over the long pull, establishing general purposes and objectives in line with this diagnosis, implementing these with specific policies governing its various activities, and surrounding all this with a statement of the creed or philosophy by which the management will be guided in this enterprise. The next ten years will witness a tremendous increase in this type of activity.

But managers have different inclinations, different ways of dealing with similar problems. John E. Kusik, vice president of the Chesapeake and Ohio Railway Company, expresses his point of view on Mr. Ohmann's prediction in this way:

> The reading of (Mr. Ohmann's article) convinces me more than ever that efforts to give written expression to a company creed or philosophy are little more than second rate efforts to improve on such basic sources as the Ten Commandments, The Lord's Prayer, Bill of Rights, Declaration of Independence, Magna Carta, etc.

Every business has its own system of evaluation. By means of this system of evaluation the managers of a particular company determine that certain things are important, other things need emphasis, certain things are unimportant, etc. This system of evaluation establishes the over-all criteria by means of which the operation of the business is evaluated, changes made, risks taken, and so on. By means of its system of evaluation the limits and direction of company growth are established. The structuring of this system of evaluation, the formulation of the governing laws of the enterprise, is a unique function of top management. This function cannot be avoided, neither can it be delegated. The question is this: *Will the system of evaluation of a particular business be formulated thoughtfully and deliberately, periodically re-evaluated and re-structured; or will it be formulated without clear convictions, without consistency and balance, without knowing what it really is?*

At one time the businessman "gathered all the facts" and made his plans. But now the function of management requires different skills and a different point of view. Now the businessman deals with *uncertainty*. He has few absolutes to guide him. But this increasing emphasis on the unknown, the increasing scope of our ignorance, highlights more and more the need for a thoughtfully-formulated body of convictions, a system of evaluation, to aid the manager in determining those things—for the most part, those new kinds of things—that must be undertaken within his business in order for it to survive.

We are in an age of relativism. Through discussion programs, exchanges of opinions on various topics, etc., we are aware that our own points of view are not shared by others. Our points of view are "relative" to our particular culture, education, and so on. In some places and for some individuals this age of relativism has crippled initiative and has created persons who are indecisive and inconclusive on even the most urgent matters.

There is a time for gathering information and opinions, but there is also a time for making decisions and shaping convictions! Perhaps now more than ever before the businessman must be *convinced,* must have a body of organized ideas that give meaning and purpose to his decisions today and create the possibility of survival tomorrow.

CONCLUSION

This article has proposed that creative planning consists of re-emphasizing the present and drawing dimensions on the future. It has been proposed that each business needs to have an organized system of evaluation by means of which it can sift out of the increasing range and complexity of alternatives those which are of particular relevance to the particular business at a particular time.

Some of the dangers and limitations of company creeds have been pointed out. To be sure, many such statements consist of grand phrases about nothing. As Mr. Kusik has pointed out, some company creeds are reproductions of ideas which have long since been reproduced by others. But nevertheless, this author proposes that there is an inherent potential for constructive contribution that can be generated by those who share in the examination of the basic purposes and the system of evaluation of their business. How can this inherent potential be brought out?

1. At the top-management level, recognize the importance of clarifying among the key decision-makers the convictions that should be common among these persons as they make their own unique contributions to the enterprise.

2. Identify and describe the real objectives the company is attempting to achieve. Develop from these objectives targets for corporate and individual improvement.

3. Relate the company to such influences as competitors, the government, labour unions, customers, shareholders and suppliers, and to the public at large. What are the dynamic forces among these and other influences that the company should identify and exploit?

Of the many possible reasons why company creeds are not more common, perhaps these two broad and opposing differences in points of view typify the relative extremes in perspective on the subject:

1. Some managers already know all there is to be known about their business, its present competence and its future possibilities. Examination and re-appraisal of the ideas of the business, of the sequence, logic and relevance of its objectives, etc., is to these managers a waste of time.

2. Other managers regard the preparation of a company creed as a gross over-simplification of a critical and important process of management—the continuous re-appraisal of the nature of the business and its governing laws.

Of course, some managers who would classify themselves under the second of these two categories might more factually be classified under the first. For other managers, the process of developing a company creed has provided an effective medium for clarifying their ideas and organizing for action.

Businesses are organized around ideas, not around people. Perhaps it is not so much the organization of people that causes some companies great difficulty as it is the kinds of ideas around which the people are organized. For example, there should be nothing to fear from the Atomic Age. The fear that confronts us is caused not so much by modern Atomic Age devices as it is caused by the grotesque combination of Atomic Age devices and Stone Age ideas.

And businesses *are* organized around ideas. The new dimensions in creative planning for each business can be discovered if its managers get together to organize their ideas, to test the relevance of these ideas, and to provide for their continuous redesign.

WHO MANAGES CANADIAN SUBSIDIARIES?

The management of subsidiaries in Canada of United States' corporations has been the subject of considerable discussion in recent times. While fully appreciating the economic advantages that have accrued from the large volume of United States investment in Canada's growth, some Canadians have been critical, upon wider and deeper national grounds, of the composition of the management and ownership of these United States subsidiaries. We are indebted to a letter received from the Empire Trust Co. of New York for some new information on this subject which is noteworthy.

The results of a recent sample survey made by them indicate that three-quarters of all the United States companies covered own 100% of the stock of their Canadian subsidiary. However, of the large companies whose subsidiaries in 1957 had annual sales of over $50 million only 58% were wholly-owned.

As regards Management, by 1958 50% of the subsidiaries had Canadian Presidents and 61% of the senior executive—that is President, General Manager, Secretary and Treasurer—were Canadians. The data showed that the longer-established companies had the highest percentage of Canadian executives. For instance, 75% of all companies formed between 1900 and 1919 employed Canadians as General Managers, as against 50% for companies formed in the last twenty years. It is of special interest that all the larger subsidiaries employed Canadians as Treasurers in 1958.

The conclusions derived from the Survey thus suggest that, while the process may seem too slow for some Canadians, the "Canadianization" of U.S. subsidiary operations is proceeding. It moves in a series of steps rather than all at once, beginning with the replacement of Americans in senior management, with a Canadian ultimately becoming President. Later outside or independent Canadians are appointed to the board of directors. Still later the Canadian public is able to acquire a portion of the subsidiary's common stock.

—Mercantile Bank of Canada
Spotlight on Canada.

Industrial Pension Plans – 1959

Provision of some form of pension plan has become an accepted part of the operation of most large Canadian businesses. The following paper describes some of the different ways in which pension plans are handled, and discusses the issues that arise in connection with pension planning.

R. E. Sproule and J. J. Wettlaufer

One of the significant developments in business in the last few decades has been the assumption by corporations of responsibility for administering, and in most cases contributing directly towards, such employee benefits as pension plans, group life insurance, sickness and hospitalization insurance and the like.

Such "fringe benefits" are now commonly-accepted conditions of employment with all but our smaller Canadian corporations. Yet it is well within the memory span of many readers to recall days when proposals for such plans were considered quite radical, and many bitter battles were fought over their eventual acceptance and adoption.

This paper is concerned with pension plans as they apply to Canadian industry in 1959.

Generally speaking, pension plans can be classified by examination of the following characteristics:

1. Administration
2. Structure
3. Eligibility
4. Contribution of employee
5. Contribution of employer
6. Vesting provisions
7. Termination provisions
8. Normal retirement age.

The balance of this paper will be organized under the above headings, relating the discussion to the data presented in Exhibit I.

A knowledge of the general characteristics of pension plans in Canada and familiarity with trends in specific industry groups, such as retail, insurance and financial, can be most useful to businessmen and employees alike.

Five years ago, the Economics and Research Branch of the Department of Labour made a significant contribution to knowledge in this field with the publication of *Industrial Pension Plans in Canada*[1], based on a survey of 214 pension plans then in force in Canadian businesses employing more than 500 workers.

In the fall of 1958, the undergraduate and graduate classes in Personnel Administration at the School of Business Administration, University of Western Ontario, under the supervision of the authors, undertook a survey of pension plans in force in 42 organizations in the London, Ontario area.[2]

The following sections of the article will describe the findings of the London study and that of the Department of Labour (1954), drawing inferences from a comparison of the two that will serve as a basis for general discussion of pension plans in Canada.

[1] *Industrial Pension Plans in Canada,* Economics and Research Branch, Dept. of Labour, Queen's Printer, 1956.

[2] The sample of organizations to be contacted was grouped under six general headings, as outlined in Exhibit 1. This exhibit is a summation of the information contained in the individual reports, and will be used as the basis of our analysis. The Department of Labour survey referred to above examined 214 pension plans, representing firms across Canada having more than 500 employees. Our sample was roughly comparable from that standpoint, in that only four of the 42 firms canvassed employed less than 500 people. Eighteen of these firms either had their head office in London or were the centre of Canadian operations for parent firms. Only five were purely local in nature. The majority were branches of Canadian firms with head offices in other cities. Consequently the survey should be of interest to observers outside the London area, in that it represents many of the largest firms operating across Canada. Ten of the firms surveyed employed more than 5,000 employees.

TYPES OF PENSION PLAN

While there are almost as many variations in the structure of pension plans as there are companies offering them, there are basically only two types of pension plan, *unit benefit* and *money purchase*.

Under a *money purchase* setup, the rate of contribution is fixed for both employee and employer, but the level of benefits may vary. This tentative level is anticipated, and the contribution formula is determined with the expectation that it will approximate a certain result.

The *unit benefit* plan calls for a fixed percentage of employee contribution, but the amount of the employer contribution, which will vary from year to year, is stated to be the balance of the cost of the plan. A fixed amount of pension is bought for each year of service with the employer.

In our tabulation we found that 20 plans were of the unit benefit type; 13 were money purchase; seven were of a composite nature. No details as to type were available on two of the four non-contributory plans.

The Department of Labour survey shows a greater majority of unit benefit plans—158 out of 214, with two composites, both the latter being combination unit benefit and money purchase.

Two of our composite plans were of the same nature, four were non-contributory and contributory combinations, and one had a profit-sharing feature tied in.

Thirty-two of the 42 plans were of the group annuity type, arranged through an insurance company, the government annuities branch, trust company or corporate trusteeship, or varying combinations of these.

The larger Canadian pension plans tend to be of the unit benefit type. In the Department of Labour survey, 158 of the 214 plans were of this type, and of the 28 plans involving more than 7,500 employees, only two were money purchase.

ADMINISTRATION

In 1953, there were only 260 trusteed ("self-insured") pension funds[3] in Canada as compared with 2,297 group annuities[4] with life insurance companies, and 1,375 group annuities with the Federal Annuities Branch. However, these trusteed plans accounted for about 52% of the total contribution, and covered about 50% of the employees under all types of plans.

In general, trusteed plans are adopted only by larger firms who can best assume the greater risks involved in operating their own pension fund. The concept of risk can best be summarized in two points:

(1) More employees might live and remain in employment to retirement age than had been anticipated in the actual studies.

(2) Employees who retire might live longer on the average than had been anticipated in the actuarial studies.

Balancing this, of course, is the fact that the larger the group covered by the pension plan, the greater the possibility that the actuarial assumptions will work out as projected.

Yet not all large plans are "self-insured". Several of the larger firms in the Retail group, the Transportation, Utilities and Institutions, and one large firm in each of the Food and Beverages, and Insurance and Financial groups have plans administered by the underwriter.

Essentially, whether the plan is to be insured or self-insured, the administrative board would have to adopt a precise set of rules governing the eligibility for benefits and conditions for payment. The differences in method of operation would occur after the detailed pension plan has been adopted, setting forth the benefits.

The difference in ultimate net cost of an insured as opposed to a self-insured plan resolves itself into three areas:

1) The difference in investment yield;

2) The difference in actual expense margin;

3) The difference in contingency reserves as between what the insurance company may establish and what the self-insured funds actually find desirable or necessary.

The essential consideration in weighing the equitability of the two methods is to ascertain whether the guarantees of the insured plans are worth the price, and whether the group is of such size and

[3]A retirement plan under which contributions to purchase pension benefits are paid to a trustee who invests the money, accumulates earnings and interest, and pays the benefits to eligible employees under the terms of the retirement plan and the trust agreement.

[4]A type of retirement plan underwritten by an insurance company, usually under a single contract issued to the employer. Employee and/or employer contributions are turned over to the insurance company as specific premiums in return for guaranteed benefits. The insurance company normally deals exclusively with the employer, except that it pays the annuities directly to the employees and their representatives. (From "Glossary of Pension Terms", courtesy of London Life Insurance Company.)

character that safeguards are required to compensate for the risk involved in the possibility that actuarial assumptions may not work out as projected.

The Department of Labour survey did not examine the extent of insured vs. self-insured pension coverage. American experience[5] shows, however, that by the end of 1954 approximately 13,000,000 persons were covered by pension plans. Four million of these came under insured plans, while the remaining 9,000,000 were covered by self-insured pension plans, nearly all of the latter being large group coverage.

STRUCTURE

The great majority of plans in our survey were both *contributory* and *compulsory*. A detailed examination of the "structure" section of Exhibit 1 by group reveals a great deal of variance with regard to these features, especially in the Oil, Rubber, Paper and Chemical and the Machinery, Equipment, and General Manufacturing groups.

Only four of the 42 plans were wholly non-contributory. Three others provided for contributory supplements to basic non-contributory plans. This total is lower percentagewise than the Department of Labour survey, where 38 of the 214 plans were of a wholly non-contributory nature.

Much controversy has been engendered regarding the structure of the "ideal" pension plan. Many experts assert that any equitable plan must be both compulsory and contributory. Canadian income tax regulations[6] favour a contributory plan in that both the employer's and employee's yearly contributions are deductible from taxable income, whereas American laws do not permit the latter.

With regard to compulsion, there are those who bemoan constant encroachments upon individual rights. The plain fact of the matter is that a large majority of the population tend to postpone the problem of retirement. Even those who can afford to make provision for the eventuality never seem to worry about retiring until the distant event becomes a reality. The average man may be resentful of the compulsion today, but the odds would certainly favour his endorsement of a reasonable income provision upon his retirement tomorrow. He will then not be too greatly affected by the serious problem that faces most senior citizens — simply too much leisure time with too little income to enjoy it.

[5]"Factors in Establishing Welfare and Pension Plans", Segal, Tilove and Elkin, N.Y.U. Conference of Labor, 1956, p. 2.

[6]*Income Tax Handbook,* A. W. Gilmour, Richard De Boo Ltd., 1958, p. 41.

ELIGIBILITY

A minimum service requirement is generally calculated to reduce the administrative cost of the pension plan by refusing admission to the newest and youngest employees—the high turnover group. The eligibility provision also has an important bearing upon pension costs. If a plan does not enable an employee to participate until after five years service or age 30 and retires him (or her) at 60 or 65, sufficient time has not elapsed to allow the incumbent to build up reasonable pension equity.

In our survey the Retail group seemed to have the most stringent eligibility requirements. It is significant that this is the group with the largest percentage of female employees. The average "work-span" of salesgirls and cashiers in this category may be less than five years, in which case there would seem to be good justification for present eligibility requirements.

Few plans make provision for coverage under the age of 21, and several require that the participant be over 25 years old, particularly with regard to female employees.

Some observers are concerned about the plight of the female under most pension plans. Granting that young women generally appear to have a shorter work life than men, the number of women, married and single, that are working permanently or are re-entering the labour market at a later date, as a widow or supplementary "bread-winner", is increasing yearly. Since women live, on the average, longer than men and thus draw their pension for a longer period of time, it requires more money to purchase a given pension for a woman than for a man of the same age.

A money purchase contract does not entail any more cost to the employer for a woman as against a man, but the woman's pension payments will be smaller than the man's for equal contributions, because she will be drawing from the plan for a longer period of time. The unit benefit plan, however, involves an employer in considerably greater cost for a female employee than for a male. Her position is further weakened by the fact that she is generally required to retire five years before the average male employee.[7]

Minimum age or service requirements are only one side of the issue. Capable older workers are often frustrated by the fact that so many firms stipulate a maximum age limit for joining their pension plan.

[7]*Pension Plans and the Employment of Older Workers,* A Report prepared for the Interdepartmental Committee on Older Workers, Dept. of Labour, Queen's Printer, 1957. p. 30-31.

The Department of Labour survey indicates that almost two-thirds of the plans either have no maximum age of entry or set it at normal retirement age, which amounts to virtually the same thing. The great majority fixed the same maximum age for females as for males, although nine plans barred females over 35 from entry.

Our survey did not yield any conclusive results on this score. Although data were too inconclusive to effect a comparison of stipulations across the board, the following table has been compiled:

Maximum Age Upon Entry	*Number of Plans Applicable To*	
	Males	*Females*
60 - 64	3	2
55 - 59	3	3
50 - 54	3	3
45 - 49	5	4
Under 45	1	2
	15	14

In the majority of cases, the maximum entry age for females was five years less than that for males under the same plan.

Low maximum age restrictions coupled with high minimum age and service stipulations certainly work to the detriment of the well-qualified older worker who may be seeking a change in position, either through necessity or choice. This could be at least partially circumvented if an employee, having fulfilled the minimum service requirements, were entitled to count his previous service retroactively.

CONTRIBUTION OF EMPLOYEE

In our survey we experienced some difficulty in ascertaining the provisions made on the employee's behalf under non-contributory plans.

The most common percentage, although by no means a numerical majority, was 5% of earnings.

In the Department of Labour survey:

30% of the plans called for an employee contribution of 5%;

25% of the plans called for an employee contribution of 4%;

18% of the plans were financed entirely by the employer.

Some plans provide for a 6% of earnings contribution, but the maximum dollar amount allowable under the Income Tax Act as deductible from taxable income in any one year is $1,500. This has no effect on the lower earnings employees, but it does put an effective upper limit on higher income contributors.

CONTRIBUTION OF EMPLOYER

There are many variations from one company group to another with regard to employer contributions. In some cases the unit benefit plans stipulate a percentage employer contribution figure as an approximation of cost, although it is understood that the actual figure varies up or down from that figure on a yearly basis. The Insurance and Financial Group seems to offer the most generous employer contributions.

Employers were generally reluctant to state the dollar extent of their yearly contribution on the employee's behalf. The few estimates that were offered varied between $180 and $285 per employee per year.

Some employers have been known to put a dollar value on the lessened turnover and improved morale and loyalty of their employees brought about through the existence of the pension plan.

VESTING PROVISIONS

As was the case in the Department of Labour survey, vesting as we defined it does not deal with the vesting of past service contributions, which apply retroactively to an employee's years of service prior to the plan's introduction. There was a great deal of variation in the 175 plans which provided for vesting.

Nevertheless a pattern did emerge from our survey. In order for a pension plan to receive approval of the Income Tax Division of the Department of National Revenue, there must be full vesting of the employer's contributions by the time the employee has attained age 50, subject to his completion of 20 years of service with the company or participation in the plan.

Seven plans provide this minimum. No vesting provisions are made under five plans. Two plans stipulate full vesting upon retirement, but they are both non-contributory. In only one plan is there no vesting information available. All other plans provide for full vesting upon 20 years of service.

In most cases the vesting is graduated with a certain minimum percentage vested at 10 or 15 years service, increasing at 5% or 10% a year until full vesting is reached at 20 years. Some plans are more liberal, as can be seen from an analysis of the appropriate section of Exhibit 1. In only two cases does the plan provide full immediate vesting.

If the Income Tax Division is satisfied that the pension plan has been effected through collective bargaining, it accepts this as proof that such plan is approved by the workers and by management, and may sanction the plan even though it lacks vesting provisions, if it otherwise meets desirable standards. Our survey gives no indication as to which plans were instituted through collective bargaining.

Essentially, vesting provisions under most plans operate against a worker's mobility. He stands to lose a great deal in moving to another job if he has less than 10 years service with his former employer. In all fairness to employers, however, is it not in their interest to maintain a stable, experienced, skilled working force for the more efficient, and profitable operation of the business?

Some observers object to this form of restrictive compulsion. They would have the employee build up pension credits, not only with his final employer but also with the companies he has worked for earlier in his career. They state that present vesting practices prevalent in Canada make it virtually impossible for a man to build up pension credits of reasonable magnitude under a series of employers. The older he gets, the more immobile he becomes.

Professors J. C. Cameron and F. J. L. Young of Queen's University state further, "there is apparently no mechanical difficulty involved in transferring the pension credits of an employee from his present employer's plan to that of a new employer, the operation requiring two certifications—one from employer A as to the amount of dollars due with an actuarial certificate if vested, and one from employer B as to the amount of pension the transferred dollars will purchase at normal retirement under the terms of his plan".[8]

This system of transfers is used sparingly in Canada. Two strongly-voiced arguments are pitted against it. Firstly the sizable actuarial computation involved in integrating the types of plans under which a man might be eligible, and secondly the need for a "clearing-house" type of registry office to keep account of each man's moves over his working career.

TERMINATION PROVISIONS

These tie in very closely with vesting provisions. Generally the termination stipulations listed in Exhibit 1 are in effect where the employee has left the firm before such time as the employer has vested any share of the latter's contribution in his name.

[8]*Vesting of Employer Contributions Under Industrial Retirement Plans*, J. C. Cameron, F. J. L. Young, Queen's University, Kingston, Ontario, 1956.

In the Department of Labour survey, for the 173 plans for which we have information only 13 stipulate that the employee must take his own contributions back in cash. Fifty-six dictate that he must take an annuity payable at 65, and 104 give him the choice of cash or annuity.

With regard to the return of employer contributions, where provided, 165 of 175 plans for which information is available require the worker to take a deferred annuity. Six of the remaining plans say he must take a cash refund and four either cash or annuity.

Thus, it would probably be convenient for the terminatory employee to combine his own and any vested employer contributions together in an accumulating deferred annuity. However, too many workers are too short-sighted to do this. They feel that they can use a few hundred dollars now for that new car, repairs to the house, current bills and give no thought to the future.

In checking across the board, it appears that too many firms in our survey allow the cash option to terminating employees. The whole purpose of providing a pension is obviously defeated if the employee receives a lump sum payment on termination. Firstly, the total amount is taxable as current income. Secondly, as stated above, the employee tends to discount the future value of this sum as a cumulative interest earner.

NORMAL RETIREMENT AGE

In the past, a high percentage of firms stipulated that an employee must retire at 65 years of age, or often at the age of 60 in the case of female workers.

With the passage of time, prejudice against older workers has diminished. Employers have found that a certain percentage of workers are still very effective and efficient upon reaching retirement age. There has been a tendency in recent years to allow the employee to request a year-by-year extension of his working life past normal retirement age. More common, perhaps, is the practice of employer review, whereby the employer retires the man unless he sees fit to keep him on.

The Department of Labour survey shows that in almost all cases pension plans specify 65 as the normal retirement age for male employees. But, fewer than 25% of these plans denoted the same retirement age for females—the most common age mentioned was 60. Only 21 plans did not allow deferred retirement.

Our survey findings do not agree with the Labour Department's in at least one respect. The vast

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PENSION PLAN SURVEY – APRIL 1959

No. of Firms Surveyed (42)	Retail Group (6)	Transportation, Utilities, Institutions (7)	Oil, Rubber, Paper and Chemical (7)	Insurance and Financial (8)	Machinery, Equipment and Gen. Mfg. (8)	Food and Beverages (6)
1) Type of Plan	4 - Unit Purchase 1 - Composite 1 - Non-Contributory (Unit Benefit)	2 - Unit Benefit 4 - Money Purchase 1 - Non-Contributory (No Details)	3 - Unit Benefit 2 - Money Purchase 2 - Composite (Unit Benefit Contrib.)	5 - Unit Benefit 3 - Money Purchase	3 - Unit Benefit 1 - Money Purchase 3 - Composite 1 - Non-Contributory (No Details)	2 - Unit Benefit 3 - Money Purchase 1 - Composite
2) Administration	3 - Administered by the Underwriter 2 - Board of Directors Committees 1 - Board of Trustees (Including Employees)	3 - Administered by the Underwriter 2 - Joint Management - Labour Board 2 - Management Committees	3 - Board Appointed Committees 3 - Management Committees 1 - Joint Trustee 1 - Govt. Annuities Branch 1 - Administered by the Underwriter	2 - Pension Societies 2 - Management Committees 1 - Admin. by Underwriter 1 - Joint Man. Comm. & Ins. Co. 1 - Subsidiary Trust Co. 1 - Company Trustee	3 - Management Committees 2 - Joint Man.-Labour Committees 1 - With Plant Employee Reps. 1 - Joint Committee of Man. and Underwriter 1 - Administered by the Underwriter	2 - Mgmt. - Labour Committees 1 - Mgmt., Dept. of Labour, Insurance Company Joint Committee 1 - Head Office Committee 1 - Holding Company Trustee 1 - Administered by the Underwriter
3) Structure	4 - Contributory 1 - Non-Contributory 1 - Non-Contributory With Contributory Supplement (2 - Contributory Plans Compulsory)	6 - Contributory 1 - Non-Contributory (5 Plans are Compulsory)	1 - Joint Group Annuity - Unit Contrib. (Both Contributory) 1 - Joint Group Annuity - Trusteed Group Ann. (Both Contributory) 1 - Separate Salary, Payroll (Both Contrib.) 3 - Contributory Plans 1 - Non-Contributory Plan (5 Plans are Compulsory)	8 - Contributory 3 - Compulsory For Men Only 2 - Compulsory Male and Female 1 - Compulsory Men; Women 3 Yrs. 1 - Comp. Men 20; Women 25 1 - Comp. Men to 55; Women Optional	1 - Non-Contrib. With Optional Supplement For Salaried, Payroll Emp. 1 - Non-Contrib. With Optional Supplement For Salaried Only 1 - Non-Contributory 2 - Compulsory, No Age Limits 1 - Compulsory At Age 25 1 - Comp. 21 (M); 25 (F) Under 64 1 - Optional, Under 55	1 - Compulsory Trus. Annuity with Money Purchase, Profit-Sharing Features 3 - Compulsory Male and Female 2 - Voluntary Male and Female (All Plans Are Contributory)
4) Eligibility (Service)	1 - After 5 Yrs. (Male) After 10 Yrs. (Female) 1 - 25 Yrs. Old; 2 Yrs. Service 1 - 25 Yrs. Old; 1 Yr. Service 1 - 30 Yrs. Old; 1 Yr. Service 1 - Latest of 30 Yrs. Old or 5 Yrs. 1 - Latest of 35 Yrs. Old or 5 Yrs.	1 - Compulsory Age 21 After 1 Yr. (Except Married Female) 1 - Compulsory Age 21 After 1 Yr. (Female Age 25; 3 Yrs.) 1 - Compulsory After 6 Mo. 1 - Voluntary After 6 Mo. 1 - Compulsory After 2 Yrs. 1 - Compulsory Upon Entry	1 - After 1 Year (Optional) 1 - After 1 Yr. (O); Compulsory 30 2 - 1 Year, Under 58 (Optional) 1 - 1 Year, Under 65 (Optional) 1 - 1 Year, Under 65 (Compulsory) 2 - 2 Yrs. Under 48 Under 55 (Compulsory) 1 - 3 Yrs. (Compulsory)	Generally All Males With 1 Yr. Service Over 20 and Under 55 Have To Participate (Two Plans Make No Provisions For Female Employees)	2 - After 1 Yr. if $250 Month 1 - After 1 Yr. 1 - After 2 Yrs. 1 - After 3 Yrs. 1 - After 3 Yrs. (M); 5 Yrs. (F) 1 - After 5 Yrs.; 25 Yrs. Old 1 - After 20 Yrs. (Non-Contributory)	1 - Vol. After 1 Yr. 25 Yrs. Old 1 - Vol. After 5 Yrs. 30 Yrs. Old 1 - Comp. After 1 Yr. Over 21 (M) 25 (F) 1 - Comp. After 1 Yr. Under 49½ Yrs. Old 1 - Comp. After 2 Yrs. Under 65 (M) 60 (F.) 1 - Comp. After 5 Yrs. Under 65 (M) 60 (F)

No. of Firms Surveyed (42)	Retail Group (6)	Transportation, Utilities, Institutions (7)	Oil, Rubber, Paper and Chemical (7)	Insurance and Financial (8)	Machinery, Equipment and Gen. Mfg. (8)	Food and Beverages (6)
5) Percentage of Female Employees	1 - Under 35% 2 - Approx. 70% 3 - Between 80-90%	1 - Approx. 10% 1 - Approx. 15% 1 - Over 20% 1 - Approx. 41%	1 - Less than 3% 1 - Approx. 15% 3 - Approx. 30% 1 - Plant 30% Clerical 60%	2 - Companies Give No Figures As to Provision for Female Emp. 3 - Between 40-50% 1 - Approx. 52% 1 - Approx. 64% 1 - Not Available	3 - Up to 10% 2 - Up to 25% 1 - Approx. 30% 1 - Over 32% 1 - Approx. 60%	1 - 4% (Mainly Salaried) 1 - Approx. 10% 1 - Up to 25% 1 - About 35% 1 - Over 65%
6) Contribution of Employee	3 - 5% of Earnings 1 - 5% of Earnings to Max. of $1500 Yr. 2 - Non-Contributory 1 - Contributory Annuity Borne by Employee	1 - 6% of Earnings 2 - 5% Plus Supplement 1 - 5% of Earnings 1 - 2½% Plus Supplement 1 - 2% of Earnings	1 - 4½% of Earnings 1 - 5% to $1500 Max. 1 - 5% Plus Additional Amount 1 - 3% Plus 3% Opt. 1 - 3% Plus 4% Opt. 1 - 4-6% Plus 5% Opt.	1 - Not Available 1 - 5% Female; 6% Male 2 - 6% of Earnings 4 - 5% of Earnings	1 - 3% on Sliding Scale 2 - 4½% of Earnings 2 - 5% of Earnings 1 - 5% Plus Extra Costs 1 - Equal Cost (Computed Every 5 Yrs.) 3 - Non-Contributory	3 - 5% of Earnings 1 - 3½% of Earnings 1 - 3/5% of Earnings 1 - 35% of Cost of Pension
7) Contribution of Employer	- All Contributory Plans Approximately Equal to Employee Contribution - In "Split" Case Employer Pays For Non-Contributory, Employee for Supp. Annuity	1 - 7½% of Earnings 1 - 6.6% of Earnings 3 - 5% of Earnings 1 - 4-6% of Earnings 1 - Total Contribution ($235 + Per Employee Per Year)	1 - 1½% of Earnings Plus Two Supplementary Contribs. 1 - Balance to Necessary Amt. 1 - 4-6% to Match Employee 1 - 3% + 3% + Supplementary Option 3 - 5% of Salary (All at Least = Employee Cont.)	1 - Not Available 1 - 5% Plus Administration 1 - 5½% of Earnings 1 - 5% Female; 6% Male 1 - 6% of Earnings 1 - 8% of Earnings 1 - 9% of Earnings 1 - 10% of Earnings	2 - Past Service, Costs, to Equal Amt. 1 - Equal to Emp., Extra Costs 1 - Increasing Scale Per Service 2 - Equal to Employee Contrib. 1 - Equal Cost (Computed Every 5 Yrs.) 1 - Greater of 10% of Net Profit or 1% of Earnings of Members	3 - 5% of Earnings 1 - 4.9% of Earnings 1 - 3.5% of Earnings 1 - 65% of Cost of Pension
8) Vesting Provisions	1 - Progressive After 5 Yrs. 1 - Progressive After 10 Yrs. 1 - Full After 15 Yrs. 3 - Full After 20 Yrs.	1 - Immediate Vesting 1 - 50% After 10 Yrs. Full After 20 Yrs. 2 - Full at 20 Yrs. 3 - No Provision	1 - Immediate Vesting But No Cash Before Retirement 1 - 10 Yrs. 100% Annuity at 65 2 - After 15 Yrs. 2 - 10 Yrs. 50%; 20 Yrs. 100% 1 - 10 Yrs. 25%; 20 Yrs. 100% 1 - 15 Yrs. 50%; 20 Yrs. 100%	1 - 3-5 Yrs. 3%; 6-17 Yrs. to 100% 1 - 5-15 Yrs. 10% per Yr. 1 - 15 Yrs. 50%; 20 Yrs. 100% 2 - 20 Yrs. 100% (Age 50) 1 - 10% 11 Yrs.; 100% 20 Yrs. 2 - No Provision	1 - 6 Yrs. 10%; 15 Yrs. 100% 1 - Partial Age 41 - 6 Yrs. Full Age 50 - 15 Yrs. 1 - After 10 Yrs. 1 - 15 Yrs (or 55) 65% 1 - 15 Yrs. 50%; 20 Yrs. 100% 1 - After 20 Yrs. (Non-Contributory) 2 - Upon Retirement	1 - Immediate Vesting 1 - After 1 Yr. (5% Incr. Per Year) 1 - After 10 Yrs. 50%; 15 yrs. 100% 1 - After 10 Yrs. 33 1/3%; 20 Yrs. 100% 1 - After 11 Yrs. 10%; 20 Yrs. 100% 1 - Not Available
9) Termination Provisions (Contributions Refunded)	1 - Own, at 3% Plus Cash Value of Company Contribution 1 - Own, With Interest 1 - Less Than 10 Yrs. Own At Int. 1 - Less Than 20 Yrs. Own at 2½% Compound Interest 1 - After 15 Yrs. Full Credit To That Point Commencing Age 65	1 - Own, at Interest If 5 Yrs. 1 - Own at No Interest 1 - Own Plus Interest 1 - All at 20 Yrs. If Less Just Own No Interest 1 - Both at No Interest 1 - Annuity = Own Plus Scaled % of Employers Contribution	5 - Own, With Interest 2 - Own, No Interest 1 - Annuity at 65 1 - No Provision	4 - Own, No Interest 1 - Own At Int. Over 15 Yrs. Both (100% At 20 Yrs.) 1 - Own At 4% Interest 1 - Own At Interest Over 10 Yrs. Vested 100% At 20 Yrs.) 1 - Own at 2½% Compounded, or Annuity at 65	1 - One at 3% Under 6 Yrs. 1 - Own at Int. Under 11 Yrs. 1 - Own at 2½% Int. Under 15 Yrs. 1 - Own at 2¾% Compound Int. 1 - Own at 2½% Int. 1 - Own at Interest 1 - Own at 5 Yrs.; 10 Yrs. % of Co. 1 - After 20 Yrs. (Non-Contributory)	1 - Own Plus Share of Profit Sharing Fund, At No Interest 1 - Own At 2½% Interest 1 - Own At Interest Or Deferred Pension At 65 1 - Own Plus Interest 1 - Own At No Int. Or Def. Pension At 65 1 - No Withdrawal, Annuity At Age 65
10) Normal Retirement Age	6 Plans (M) 65 Yrs. 2 Plans (F) 65 Yrs. 4 Plans (F) 60 Yrs.	1 Plan (M) 65-70 Yrs. 5 Plans (M) 65 Yrs. 1 Plan (M) 60 Yrs. 3 Plans (F) 65 Yrs. 3 Plans (F) 60 Yrs. 1 Plan (F) 55 Yrs.	7 Plans (M) 65 Yrs. 3 Plans (F) 65 Yrs. 4 Plans (F) 60 Yrs.	4 Plans (M) 65 Yrs. 1 Plan (M) 64 Yrs. 1 Plan (M) 63 Yrs. 1 Plan (FM) 62 Yrs. 5 Plans (F) 60 Yrs. 2 Plans (F) No Mention	1 Plan (M) 70 Yrs. 7 Plans (M) 65 Yrs. 8 Plans (F) 65 Yrs.	5 Plans (M) 65 Yrs. 1 Plan (M) 64 Yrs. 3 Plans (F) 65 Yrs. 1 Plan (F) 64 Yrs. 2 Plans (F) 60 Yrs.

majority of plans specified 65 as the normal retiring age for males, but 19 of them also stipulated 65 as the normal retiring age for females. Only four did not provide for deferment.

In the Machinery, Equipment and General Manufacturing group, all eight plans provided for normal retirement of female employees at 65. While this group does not contain as high a percentage of female employees as the Retail Group, there are still sizable numbers of female workers included under these plans.

The later an employee retires, the longer the period over which contributions on his behalf accumulate and the shorter the period over which he receives benefits — both factors making for lower costs. A change of only one year in the average age at which employees can be expected to retire produces a difference of 8% to 10% in the cost of a pension plan.

If the pension is small, the employer may feel that he will incur some responsibility for keeping the worker on beyond the stage where his performance is satisfactory, or even for providing him with a supplementary pension. Either alternative involves him in appreciably higher costs.

Compulsory or premature retirement may have the effect of throwing the worker into the labour market at an age when it is difficult for him to find a new job, even though his skill and experience would still have been extremely useful to his old employer. Thus on two counts, actuarial appreciation of pension, and retention of known skill and reliability, an employer would do well to appraise each employee's future potential carefully as he comes close to normal retirement age. It may be cheaper to keep him on.

CONCLUSION

There can be no doubt that the community is relieved of a tremendous responsibility when it knows that firms operating within it are making just and reasonable provisions for its senior citizens of tomorrow through sound pension planning.

It is not incumbent upon us to set up our own criteria for the ideal pension plan. Each company and each industry has its own peculiar financial structure that dictates how far it can go in providing future security for its employees. Each plan must be tailored to individual needs, as liberal as the employer can reasonably afford.

However, a few general comments might be in order. The insurance company, the trustees, the employer or his actuary cannot fix the cost of a pension system in the same sense as a grocer determines the price of a loaf of bread. The best they can do is to estimate in advance what the cost is likely to be and set up a schedule for accumulating a fund to meet these costs as they arise.

The presence or absence of a compulsory retirement provision, the definition of continuity of service, the basis on which credit is allowed for past service, the vesting and termination provisions — all enter into the ultimate cost of a pension plan, coupled with such questions as the classes of employees who are eligible, the age and service requirements for eligibility and the question as to whether or not membership is to be compulsory.

In order to circumvent certain of the difficulties possible above, we believe that a pension plan, whether money purchase or unit benefit, should provide employees with the opportunity to make additional voluntary contributions in order to enlarge an otherwise small pension. Pension planners should also look into the feasibility of putting a portion of their funds into equities, as a hedge against the creeping inflation that plagues retired employees living on a fixed income.

Pension costs should be considered in the aggregate and not in relation to any individual employee. The cost problem will prove relatively insignificant if each individual employer will consider pension costs on their merits, and in the light of overall employment policy, without overly striving for economies at the expense of otherwise desirable policy.

WHAT PRICE STAFF LOYALTY?

. . . You should not try to cut down on mobility. Loyalty? I am for aspiration and do not mind dissatisfaction. I want managerial people to froth at the mouth at the way top management are running their firm. I want them to believe that they could do it better and be constructively dissatisfied. I am very old-fashioned. I believe that very few institutions in the world have the right to demand loyalty. But they can try hard to earn respect.

—Peter Drucker
The Manager
Journal of the British Institute of Management

The New Role of Modern Marketing

The role and function of marketing in business has changed tremendously in recent years. No longer is marketing synonymous with selling; modern marketing is consumer-oriented and embraces many fields previously the domain of the production or financial departments. The author of the following paper on the role of modern marketing is widely-known both in Canada and the United States as a leading authority in the field.

LAWRENCE DAMPIER

A seller's market, brought about by a minor recession after a period of major prosperity, suddenly makes everyone aware of the importance of marketing in business. The marketing program is brought under intense scrutiny to ensure that every facet of it is producing maximum results.

This is good. First, it makes the marketing man increasingly critical of his plans and techniques and the people who execute them. Second, it makes other corporate executives aware of the importance of marketing in contributing to company profitability.

The purpose of this paper is to point up some aspects of the new role of marketing for those people engaged in its practise, and to outline broadly the role of this modern marketing in relation to our overall business activities.

First, looking at the subject from inside the marketing operation, it will be seen that the marketing side of most companies has changed its role substantially in the past few years. The players on the marketing team each have new roles, and the relative importance of some of them has changed.

Second, looking at modern marketing from the outside, it will be established that the total role has changed. More important, marketing has increased in importance in relation to other company operating departments. This imposes real economic and social responsibilities, as well as selfish company ones, on all engaged in marketing practices. Producers are finding better ways to make products that are more attractive and more useful, and must find more effective ways to market them.

It will not be necessary to deal with the "inside" and the "outside" looks separately. Each is so closely related that both points can be made simultaneously.

MARKETING DEFINED

It is essential first to define "marketing". Marketing is really a simple business process, but occasionally people confuse the terminology.

Marketing, selling, sales promotion, advertising, merchandising, and other similar words, often used indiscriminately and as alternatives for each other, contribute to confusion about what is meant by marketing.

In order to get goods to market, two forces must be put to work. First, there is the physical energy required to move goods, by truck or train or pipeline or other means of transportation, from the manufacturer's warehouse to the ultimate place of consumption. We are not concerned, here, with this physical movement of goods. It is interesting to note in passing, however, that traffic and warehousing departments, responsible for this physical movement, are tending to come under marketing instead of production control because of the new role of marketing. It is service to the customer, a marketing responsibility, which is vital—not subservience to a rate or motion study.

The second force at work is the sum total of all the non-physical energies generated to move goods out of warehouses into final consumption. It is the researcher designing and developing and enhancing products people want; it is the salesmen obtaining distribution; it is the advertising persuading prospects. It is the sum of these and other forces. You cannot see them, like a truck moving down the road. It is difficult to measure their individual and relative importance in the total effort. But all these forces working together make up marketing. It is the term applied to these forces at work to make the right goods and services available to the right people at the right time and to exert pressure on those people to buy.

Production, finance, legal, administration and other departments of business are, by comparison with marketing, reasonably exact sciences. The science of marketing is anything but exact, though daily it is becoming more so. But then, by comparison with the others, it is relatively new, too.

The advent of marketing in our business affairs grew out of mass production operating in a free enterprise economy. Years ago, the main business emphasis was on the production of goods and the means of financing and administering that production. The great business leader was, usually, a financial wizard or an inventive genius; someone primarily concerned with raising money or making a product. Demand for goods and services, in countries with rising standards of living, especially the Americas, was insatiable. Larger plants were financed and built, assembly lines were made more efficient, keen competition developed, and, in a relatively short space of time, we were producing more goods than our consumers were demanding. Consumers became more and more selective, too, as a greater variety of products was offered to them.

A new business element was required. People had to be persuaded to buy our products, and marketing became an essential function in business. In many alert companies this increasing emphasis on selling developed as it was needed. Businessmen realized early that it was not enough to deliver the goods; those goods had to be sold, too.

There is no doubt, however, that for many companies, a full appreciation of the importance of marketing is relatively new. Some companies, too slow in recognizing the importance of marketing, are now out of business altogether or have been swallowed up by their more alert competitors. This fuller appreciation of the new marketing role is evidenced in three broad ways.

First: a larger and still growing share of the successful manufacturer's budget is now devoted to marketing operations. Market research staffs, field selling organizations, and advertising and sales promotion departments are expanding. They are spending more and more of the company dollar in the battle for the consumer dollar. To illustrate: since 1950, our Gross National Product in Canada is up 50%, but marketing expenditures have increased more than 78%.

Second: senior executives of many companies today are marketing people or marketing-oriented people. The technical and financial men have either taken second place to marketing executives or have given them increased or equal voice on the corporate policy and planning level. This trend is continuing.

Third: media of mass communication, and advertising agencies which represent them, have developed and grown to serve as salesmen of goods and services. For example: there was virtually no television in Canada in 1950. Today nearly 70% of the homes have TV sets. And yet the radio industry and the Fourth Estate are flourishing.

Marketing is continually increasing in importance in all our business affairs. One of the most significant developments is the growth and dominance of the supermarket and similar types of retail outlets, because they removed a personal salesman from the chain between the manufacturer and his consumer. In food, drug and other retail outlets today, including department stores, the consumer is confronted by rows upon rows of shelves offering her a wide, confusing variety of products—and she must make the choice with no sales clerk to help her. She must be sold before she enters the store. The media of mass communication are taking over from the retail clerk. The manufacturer must move closer to his ultimate customer and close this gap. This is a role of modern marketing.

It would not be possible to comment on marketing for all types of business in this limited space. All businesses can be divided into three main types as far as their marketing opportunities and problems are concerned. First, there are those whose products have no brand name. A piece of lumber, a bushel of wheat, a nail, for example. Most all commodities and near-commodities are in this class. We call this non-proprietary marketing.

Second, you move on to the type of business where the name of the manufacturing company may carry some weight in selling the customer simply by virtue of the company's reputation for making good products of that type. Many industrial products fall into this class, and it is called semi-proprietary.

Finally, you come to the type of business whose products do have brand names. In these cases, the only asset which the manufacturer owns exclusively is the brand name, hence the word "proprietary"—meaning "to own". The company owns the name and not the exclusive right to manufacture the product.

There are several words to describe this last type of business as far as marketing is concerned. Proprietary marketing, distributive marketing, and brand-name marketing are three of the most frequent terms. This paper is concerned with that type of business whose marketing problems have to do with the sale of products which have brand names. General Motors does not sell cars. It sells Cadillacs and Buicks and Chevrolets. Lever Brothers does not sell soap. It sells Lux and Sunlight. It is important to keep this distinction in mind in thinking about modern marketing.

Actually, the basic principles of marketing are the same for all three types; there is a difference only to the degree in which these marketing principles are applied in each.

Marketing is a simple business process. The basic principles are simple. They have not changed a great deal in the past 25 years. However, the application of them has changed substantially. Therein lies our problem. And you have to keep on changing their application as marketing opportunities and problems arise in our highly competitive free enterprise system.

BASIC PRINCIPLES OF MARKETING

What are the basic principles of marketing? There are only four.

First: your product must be right.

Second: you must create desire for it.

Third: you must make it available.

Fourth: you must help to accelerate its sales.

As these principles are described more fully, the complexities involved in applying them to the marketing opportunity or problem of any one product or service become apparent. It is this fuller appreciation of the complexities that gives rise to the new role of marketing in our business affairs today.

THE PRODUCT

First principle: the product must be right. But right from whose point of view? The company view, as professional manufacturers? Certainly not. We are concerned with the ultimate consumer: what does he need or want? It is essential to be sure of the answer. Good salesmen and persuasive advertising may sell our consumer anything once, but only if the product is right will he buy it again—and again—and thus create the repeat purchases which make products truly profitable.

When we say the product must be right, however, we do not mean the product in itself. It must behave in use as the consumer wishes. It must give the end results or benefits which he expects, or, in the case of a new or improved product, which the manufacturer promises. We must consider also the way in which our product is presented to the consumer. The price must be right in relation to the consumer's willingness to pay and, important in most cases, in relation to the price of competitive products. The packaging must be right because it is a vital part of the presentation. In fact, for most so-called proprietary products, the consumer cannot even see the product. It will be appreciated, therefore, that shape, size, colour, design and function of the package are all vital considerations in ensuring that the product is right.

Most of us can remember when packaging was the function of production people. In modern marketing, however, packaging is the responsibility of the marketing people. Marketing people often retain packaging consultants at substantial fees to advise them on both design and functional aspects of packaging. This is an example of modern marketing at work.

The section of the marketing team which is concerned primarily with the product is the market research group. Working hand-in-hand with the research and development department of the technical side, market researchers provide the specifications, including cost, for the goods to be sold by most companies operating under modern marketing methods. Marketing, today, must lead the way. No member of the marketing group, however, works in a vacuum. The market research group operates closely with all the members of the marketing team. The only successful marketing team is a closely-integrated one. Market research is vital to successful marketing but it is not a substitute for good management judgment.

Frequently, product differences or advantages are not easily discernible or not sufficiently interesting to develop consumer preferences. It is often possible to make a product right by making it obviously different through artificial means; obviously different in such a way that the consumer will not only notice it immediately but be sufficiently excited to prefer it over competing items. Packaging, colour,

odour, shape, size and other factors present opportunities for attaining the "built-in" difference which will not only make our product right, but help make it more readily saleable.

CREATING DESIRE

The right product is now ready. The second marketing principle dictates that we must create desire for it or arouse a desire that is latent. Obviously this is the function of advertising in the modern marketing role.

The importance of advertising in modern marketing has been established earlier. The growth of media of mass communication, the increasing size of advertising agency billings and company advertising department staffs are sufficient evidence that the manufacturer has recognized the need to move closer and closer to his ultimate consumer and to fill the vacuum created by the absence of personal sales clerks in such places as the supermarkets. Today his customers must be sold before they reach the point of sale.

Advertising is nothing more or less than the business of persuading people, convincingly, to buy goods or services. It emphasizes what the product will do for the consumer: make him happier, safer, healthier, or provide some other benefit. Advertising says in the print and electronic media what a sales clerk must say, face to face, in persuading a prospect to buy.

It is not the purpose of this paper to discuss advertising in depth; it will suffice to state that advertising makes a promise which the product must keep.

Impressive evidence of the new and important role of marketing in business today is the fact that persons in high places credit advertising, and other marketing processes, with helping head off the recession which developed in mid-1957.

PRODUCT AVAILABILITY

The next principle of modern marketing is that we must make our product available. We must make our goods available to our prospective consumers in as many points of sale as are economically feasible. We must have the right product in the right place, or else inherently lazy or spoiled consumers will select an alternate one. Obtaining this mass distribution is the function of the field selling force, the salesmen of our marketing team.

Field selling is not the subject of this paper, but it is necessary to emphasize the importance and changing character of this function in modern marketing. Wide distribution is vital to modern marketing success. The principle is simple but its application is complex. For example, one package of our product in every retail outlet would be wide distribution. But, we all know: "You cannot sell goods from an empty wagon".

Our salesman must ensure that each retailer has a stock of our product sufficient for his size of store. It is not just distribution that is needed, but good distribution. "Net effective distribution", it is called. The amount of stock for each point of sale must be related to the journey cycle of the salesman and the ability of the retailer to warehouse it until the next call. Credit rating is a factor, too, since no sale is really made until it is paid for.

One of the big problems confronting the salesman is to obtain enough shelf-facings for his products so they cannot be missed by the consumer or outshone by the competitor. This problem of shelf-facing, incidentally, has led many manufacturers, upon the dictate of their modern marketing team, into multiple size packages for each product; each new size usually demands important extra space on the shelves. And all this activity requires ample distribution.

Our salesman is a key man in the marketing battle for the consumer dollar. In addition to obtaining distribution, he must maintain good company relations with the distributive trade so the retailers will keep prices competitive and brands well displayed.

Field selling has adapted its role to modern marketing. The function of the salesman has changed and developed over the past few years, as have the functions of the other people on the marketing team. First, the removal of the sales clerk, or a properly trained one, in many types of retail stores has meant much to the manufacturer's representative: he must help to fill this gap. Manufacturers must develop plans which force their retailers to perform certain functions.

SALES ACCELERATION

This leads to the fourth and last principle of marketing: we must help to accelerate the sales of our products. Left alone, the "non-partisan" retailer normally will do no more for one brand than another. He may have a few high-volume or long-profit favourites but, by and large, he has neither the time, facility nor inclination to do anything special to accelerate the movement of any particular brand. The modern marketer must provide the impetus in the competitive situation. We have a good product, our consumers know about it and our re-

tailers have it on their shelves. So far so good. But not good enough. Competitors may be equally capable in these areas—or the consumer may need more persuasion to buy.

To use an analogy: thus far, we have put coffee beans in the top part of the old-fashioned coffee grinder with the great big wheel; now someone must turn the handle to consume the beans and thus make room for more.

This business of accelerating movement usually is called sales promotion, and in modern marketing the function has become especially important. In a broader sense, sales promotions are devices and activities designed to accelerate or force the movement of goods across the retail counters and into the hands of consumers. Sales promotions are usually developed in a sales promotion department and executed by the field selling force.

The sales promotion department is a branch of the same root as the advertising department; in a sense, it concerns itself with advertising at the point of sale. It has been said that advertising moves consumers towards goods, while sales promotion moves goods towards consumers.

These promotions accelerate movement because, for example, they force large stocks on retailers and, hence, more and larger displays. They encourage consumer sampling, enhance opportunities for cooperative advertising, or relate the product to more seasonable or higher-turnover products.

Sales promotion is obviously important in this battle for the consumer dollar. Like the other marketing departments it has had to develop new and improved techniques.

These four principles must be applied for a successful marketing job. Leave one element out and you give your competitor an opportunity to fill the gap. Put too much emphasis on one and too little on another and the imbalance will result in a lower share of market. It is always difficult and expensive to recover lost sales.

Customers for a product are sold on that product in varying degrees. They may be absolute insisters, temporary preferers, or merely recognizers. One soft-drink manufacturer likens these three classes of customers to family, friends and acquaintances. There are those persons, too, who are not customers at all. In a highly competitive market, therefore, we must bring all the forces of modern marketing to bear if we are to obtain the volume we need for profit.

SUMMARY AND CONCLUSIONS

The first object of this article was to establish for the marketing practitioner that a new role has emerged for him as increased competition for consumer dollars has developed and as consumers have become increasingly selective in their purchases. The methods of doing business change, and marketing must keep pace. Marketing, in fact, must strive to be ahead. Modern marketing methods must be developed as modern automation provides more and better and newer goods to be moved from production to consumption. The modern marketer must be aware of his role, in order to coordinate all the forces available to him. He must recognize, too, that these forces are constantly changing, and their relations to each other are varying from year to year.

The successful business today is the one which coordinates its marketing functions under one marketing executive and gives him an appropriate voice in the management of company affairs. The senior executives of a great many companies today are marketing people. This trend will continue as the ability to supply is taken for granted and the ability to create demand continues to be the greater challenge.

This marketing executive, in assuming the greater responsibilities of his modern role, must become a competent business administrator capable of "getting things done" through appropriate department executives. More and more, our marketing executive is being held responsible for the economic prosperity of his company; the full responsibility for profits is coming to rest on his shoulders. These responsibilities, in turn, drive him toward social and even national security roles which could not even be imagined 15 years ago.

In this limited space it has been possible to do little more than outline the role of modern marketing. A summary is still more difficult.

In the immediate future, Canadians will have more money than ever to spend but many companies will be unable to report profits in line with their greater volume. The usual reasons for depressed profits will continue to apply, and savings through budget cuts will provide only slight relief. The application of modern marketing principles will lower unit costs and eliminate unprofitable volume. Old-fashioned marketing, ignoring the new role, will produce lower profits because, for example, there will be no coordinated marketing plan, no marketing executive at the policy level, no carefully-defined objectives for each segment of the marketing operation, and no standards to measure performance and results.

Where the principles and practices of modern marketing are followed, companies will increase their share of market and their return on invested capital. The underlying thought in the minds of successful sales executives is that it is always a buyer's market, and that they must offer a wide variety of products to cater to the increasing selectivity and varying demands of their consumers.

The essence of modern marketing, as it has been outlined here, is that the manufacturer must start with the consumer, in determining his or her likes and dislikes through research and other means, if he is to end up with that consumer as a customer. Modern marketing uses everything available to it from the marketing research stage through advertising, distribution and sales promotion. It not only uses them all, but uses them in a carefully planned program, because they are interdependent.

The importance of modern marketing is emphasized when it is realized that its application reduces substantially the risk in marketing investments in these times of large-scale appropriations, particularly where improved products and new products are concerned.

More important, modern marketing today is recognized as a major factor contributing to company profitability.

PRICING PROCESS: FACT AND FANCY

The argument has developed that infrequency of price change is an indication of monopoly (single seller) or oligopoly (a few sellers) control. Thus, we hear that "business giants" can administer prices because they have "no competition" and they have the power to "openly defy" the forces of supply and demand in the market place.

But, as noted earlier, administered prices are not confined to "big business in concentrated industries".

Putting the right price on a product is a difficult task. Businessmen must consider a variety of factors — e.g., demand, costs, taxes, prices of competing products, needs for profits. An excessive price risks loss of markets to competitors and competitive products; an inadequate price may result in business failure or lack of financial ability to meet market demands.

If the corner storekeeper pushes up grocery prices too high, the housewife will take her business to the supermarket. Mounting prices for Pittsburgh steel products may mean loss of markets to, say, German producers, or to substitute materials such as reinforced concrete. If copper prices get too high, cable makers switch to aluminum.

It is always popular, when prices are rising, to put the blame upon the seller for "profiteering". Yet the trend has been toward narrowing profit margins over recent years. This would seem to dispose of the argument of "oligopolistic" profiteering. Indeed, if this trend of profits were to continue for long, it could be confidently predicted that the nation will sink into a long slumber of stagnation. Profits are necessary to bring into being the tools and machinery which must be provided for increased employment and economic growth.

—First National City Bank
Monthly Letter

Evaluating a Supervisory Training Course: A Case Study

Management or supervisory training has become an area of growing interest and concern to top business management. Much attention has been devoted to training programs, but with little or no attempt to evaluate what, if anything, such programs accomplished. The following article describes a pioneering approach to evaluating such a program by the personnel research department of the Hydro-Electric Power Commission of Ontario.

J. D. Elliss

Courses and programs designed to train men for better supervisory performance have enjoyed considerable vogue in business and in our universities since World War II. Despite the fact that substantial sums of money have been spent on such programs, very little has been done to evaluate what results, if any, have been accomplished. In large part, the essential job of evaluation, measurement and "feedback" of results has been neglected, due primarily to a lack of established and proven techniques for measuring results.

The need for better supervision is general throughout business, government and other forms of organized activity. The Hydro-Electric Power Commission of Ontario has long recognized this need, and has attempted by many means to provide training for more effective carrying-out of the supervisory job. As part of this program, continuing attention has been devoted to the important task of evaluation and research. This paper describes in some detail the steps undertaken in evaluating one of these supervisory training courses, and some significant generalizations regarding training which we believe flow from the research findings.

The research discussed in this article was carried out between October, 1956, and September, 1957, as part of a continuing program of research on supervisory training. The study was conducted in the Georgian Bay Region with the cooperation of all members of regional management.[1]

The purpose of the study was to evaluate the effectiveness of a supervisory training course. That is, to discover if the course covered the supervisors' actual training needs, and if changes in supervisory behaviour were made which could be attributed to attendance at the course. The course was spread over 10 weeks.

RESEARCH PLAN

The research plan was to interview one group of trainees, their superiors, and subordinates, before and after the training sessions; to observe a complete series of training sessions, giving the trainer a feedback after each session. This plan was followed except in regard to the "before" interviews.

[1]For administrative purposes the Commission divides the province into nine regions with regional offices located in nine major municipalities. The Georgian Bay Region with regional offices in Barrie, is subdivided into 17 Rural Operating Areas. Each area has a manager, staff and office located in the principal town or village in the area. The Regional Manager, Mr. J. C. Ferguson, and the regional Personnel Officer, Mr. A. G. Pickles, in particular actively supported the study, and allowed the researchers complete freedom to approach all levels of supervision. The researchers were Mr. D. S. Conger and the author, both members of the Commission's Personnel Research Department.

It was not possible to complete all interviews before the course started. Three trainees were not interviewed until after the first training session. All the superiors and subordinates were interviewed after training had started.

Three series of interviews were carried out, the first before and during the course, the second and third after the course. The purpose of the first interviews was to get descriptions of each trainee's supervisory behaviour prior to attendance at the course as this was reported by the trainee, his superior, and, if possible, his subordinates. We also hoped to discover the training needs of each trainee from the same three sources.

The second series of interviews was started 3½ weeks after the course finished and took 3½ weeks to complete. These interviews were to discover the immediate effects of the course. That is, to discover what changes had occurred since the beginning of the course in the trainees' expectations and performance of the supervisory role. Additionally, it was hoped that these interviews would reveal those factors in the work situation which encouraged trainees to put new ideas into practice and those factors which hindered them in their attempt to do so.

The third series of interviews was carried out six months after the second series. These interviews were conducted with three purposes in mind: 1. to discover if changes reported in the second series of interviews had been retained and if any other changes had occurred; 2. to give the people who had participated in the research an outline of research results and obtain their opinions regarding the realism of the changes reported; 3. to discover if the participants objected to wider circulation of the research results than originally had been intended.

The total number of people who participated in this research was 36: 18 trainees, of whom eight were foremen A,[2] eight were chief-clerks and two were chief-operators; nine area managers to whom the trainees reported; and nine foremen B who reported to the foremen A trainees. The people who participated in the research cooperated voluntarily.

In all interviews, a semi-directive interview technique was used; that is, open-ended questions were asked to keep the interviews going and to direct the interviewees' attention, but the interviewees were encouraged to talk fully upon the topic rather than answer a rigid questionnaire. This type of interview is more time consuming, but was chosen to allow the interviewers to take advantage of leads supplied by the interviewees. All interviews were conducted with the understanding that the information given would be treated confidentially and that the anonymity of the interviewee would be respected. In general the participants accepted this guarantee and only one man, not a trainee, declined to take part in the research.

[2]Foremen A supervise the work of area line crews through subordinate foremen B.

THE COURSE

The course consisted of 10 one-day sessions, spaced one week apart, conducted by Mr. S. M. Tobin, a psychologist with the Commission's Management Development Department. Content included discussions of case material, film strips, short lectures, impromptu talks and printed material. Each of these are discussed below.

a. *Discussions*

The training sessions were conducted in a semi-directive manner, that is, the trainer selected the cases for discussion and directed the trainees' attention to various aspects of them. The trainer did this in several ways: by his opening remarks after the trainees had read the case ("Joe really is upset—let's look at it from Joe's angle"); by his questions ("what do you think of the way the supervisor handled it?"); by the statement he chose to reflect or interpret; and by the way he kept the group working on some aspect of the problem when they wished to go on to another point. However, the trainer did not try to force the group to accept a particular point of view; on the contrary he helped them examine a problem from every angle and encouraged them to put forth their own ideas on how the problem should be handled.

At the beginning of the course the trainer emphasized that he did not have "the answers" to the problems. He believed, he said, that the answers lay within the group and would come from the combined supervisory experience of the members. The purpose of the course was to help them share their ideas and thus help each other solve some of their common problems. He implied that his part in the course would be mainly that of a catalyst. That is, by giving any information he had and by clarifying points about which they were unclear, he would provide the conditions necessary for them to examine the problems thoroughly. Then, in the light of their combined supervisory experience, they could decide how they felt such problems could be handled.

In the early sessions the trainees were unhappy with the trainer's approach and repeatedly tried to get him to commit himself on what he thought was

the correct way to deal with a problem. When this happened, the trainer threw the question back to the group with such remarks as, "I have not got the answers", "well, what do you think?" In addition, the trainer conducted the sessions in a friendly, permissive manner which put the trainees at ease and encouraged them to express themselves without restraint.

The trainer's participation in the discussions appeared to be governed partly by the extent to which he thought trainees were either gaining new insight or were repeating themselves without gaining new insight; partly by his desire to have them reach a constructive opinion during a session; and partly by the strain he was under in carrying out the heavy schedule of training courses. Thus, to the observers, the trainer's periods of silence sometimes appeared to indicate that he felt the discussion taking place was fruitful, while at other times they appeared to be an indication of physical fatigue.

During the course of the discussion the trainer frequently recapitulated and pointed up differences of opinion. He also participated by asking questions, reflecting comments, and selecting aspects of the problem for discussion. Questions were used to direct the trainees' attention to aspects of the problems or to clarify the discussion. Reflecting some comments and ignoring others was another method used to direct attention, to emphasize a difference of opinion, or to obtain clarification. The trainer also paraphrased or interpreted comments and occasionally misinterpreted them. However, because of the permissive atmosphere, such misinterpretations appeared to have no ill effects, as the trainees did not hesitate to correct the trainer and reiterate their opinion. When this happened, the trainer complimented the group for not letting him put anything over on them.

When summing up at the end of a discussion, the trainer made no attempt to force a conclusion on the group. His method was to review briefly the areas of agreement, point up differences of opinion and pose questions for the trainees on points which had received little or no attention during the discussion. Most of the impromptu talks the trainer gave were given at this time. In addition to the discussions of case material, there were some discussions of a more general nature. These were initiated by the trainer, as discussed later under the heading film strips, and allowed the trainees to express their attitudes towards their present job and the total organization. These discussions pointed up the ambivalence in many of the trainees' attitudes as well as differences of opinion among trainees. Thus, some of the trainees looked back nostalgically to the informality and friendliness of the "good old days", regretting the present impersonality of the organization while applauding present-day material conditions of employment. This ambivalence also showed up in the discussion of discipline. Other trainees were ready to point out contradictions in the statements made and to give examples of the abuses of the "bad old days". These discussions brought such attitudes into the open and gave the trainees an opportunity to examine their own attitudes and appraise them realistically. Similarly, in a discussion of the chain of command the trainees examined their own relationships with other supervisors and came to some conclusions on how they should work together in the future.

b. *Talks*

The talks were interspersed through the course and were short enough (less than 30 minutes each) to retain the attention of the trainees. In general, the trainees appeared to find the talks interesting and listened attentively. Few of the trainees took notes, but one man who did so said that he felt he could make use of the information in appraising his subordinates, an activity in which he was then engaged. Other trainees told the observers, at coffee-breaks or lunch time, that they found the trainer "very easy to listen to" and the talks "very interesting".

The impromptu talks were given when a discussion had demonstrated that the trainees either lacked information or possessed false information. The trainer's method was to ask questions, designed to lead the trainees to see a contradiction, and then to explain the situation to them. Thus, during the discussion of one case the trainees could not decide whether or not the men had acted reasonably. The trainer had the group go over the case until a trainee noted that everything had happened so fast that probably neither of the men were being unreasonable. After one or two other trainees agreed to this, the trainer went over part of the case and gave a short talk on reason and unreason.

c. *Film Strips*

The film strips were usually shown toward the end of a session and, when time permitted, the trainer reviewed them and asked for questions. The trainees did not ask questions and gave the impression of being rather bored. On one occasion, two film strips were shown at the beginning of a session and, instead of reviewing them, the trainer took one of the statements from the sound track and asked the group if this applied to Hydro. The ensuing discussion was probably the most profitable

of the course in that it brought out many of the trainees' attitudes towards both their present job and the organization. On another occasion, the trainer started a discussion on discipline, with similar results, by referring to a film strip shown the previous week and asking if workers are disciplined enough.

Despite these two instances, the observers do not believe that the film strips stimulated the discussion. We believe it was the questions the trainer asked that provided the stimulus and the permissive atmosphere he had built up that encouraged the trainees to express their feelings so freely. The fact that the stimulus was independent of the film strips was demonstrated by another discussion. The trainer drew a simple organization chart to illustrate cases of by-passing. This initiated a general discussion in which trainees examined their own relationships with other supervisors. The trainees did not refer to film strips in any way during any of these discussions. The emphasis was heavily on their own work situations, with some reference to the initial remarks of the trainer or to present conditions in the industrial world outside Hydro.

The major criticism the observers make of these particular film strips is that they provide supervisors with guides to action based on an over-simplification of social behaviour and individual motivation. For example, one film stated that a man's name is important to him and insisted that relationships with him would be improved if the supervisor took care always to pronounce his name correctly. No mention was made of factors which could invalidate, or modify, this argument. Thus the fact, that an affectionate mispronunciation or a nickname might be preferred to a formally correct pronunciation was not mentioned. The observers feel that such modifications are important to successful application of the general principle and should be brought to the attention of the trainees.

Other criticisms are that the film strips in themselves are repetitive and they contain information which was also given in talks and printed material. However, against this must be stated that repetition *per se* is not necessarily a fault, and that visual stimulation reinforces information given in other ways.

d. *Printed Matter*

The printed matter given to the trainees, with the exception of case material, was given as summaries of information given in the film strips and talks. Those concerned with the film strips contained the points made in the films and were given out after the film showing. Others were given out during the sessions, with the trainer sometimes going over the contents with the trainees and asking for questions. On other occasions the trainer handed them out and asked the trainees to read them at home. These papers were not intended to be used as a basis for discussion and the observers are unable to estimate their usefulness to the trainees.

TRAINING NEEDS AND CHANGES

We expected there would be a certain amount of agreement among the area managers in their expectations of the supervisory role. Thus, by taking these common elements, we would have a standard against which to measure a trainee's understanding and performance of his role and therefore gain an indication of his training needs.

More specifically, some training needs would show up when the manager's description of the trainee's behaviour was compared to the manager's expectations and the common expectations. Training needs would also show up when the trainee's expectations were compared to the common expectations and when his performance, as he reported it, was compared to the standard of the common expectations. The foreman B's report on how the foreman A operates might bring up training needs that were not apparent to either the area manager or to the trainee.

The second interviews were conducted in a similar manner to the first, except that the researchers were more exacting in asking for examples to illustrate any changes reported by the interviewee. During the second interviews trainees were generally more introspective and showed increased frankness and objectivity when discussing their own performance and relationships. In the first interviews, most of the trainees insisted that all their relationships were perfect and that they had few, if any, problems in their supervisory role; in the second interviews, they were more willing to tell of unsatisfactory relationships and supervisory problems. In general, the trainees were more critical of their own behaviour and the behaviour of others. They were also more conscious of the chain of command and of their place in it.

A finding of some importance was that most of the area managers had found it advisable to reread the case material and notes, from the training sessions they themselves attended six months earlier, in order to ensure that they acted in accordance with the principles advocated in the course. Seven of the nine area managers interviewed gave some indica-

tion of reacting in this way to their subordinates' attendance at the training sessions. This suggests the training given the lower level supervisors provided a reinforcement of the training already given to the upper level supervisors.

The training needs abstracted from the interview data fell under the following four headings: confidence, interpersonal relations, supervisory skills, and organizational knowledge. These are discussed below, together with a statement of the changes reported in the interviews carried out after the course.

1. Confidence

A basic need in developing supervisors seemed to be the need to develop the supervisor's confidence in his ability to handle both the technical aspects of his job and the interpersonal relationships which are an integral part of the supervisory role. Six of the area managers mentioned increased confidence as a training need for one of the trainees from his area. One trainee also mentioned the need to develop his own confidence and two or three others mentioned this indirectly.

Reported Change: After the course, four area managers reported that the trainee had gained in confidence. Two area managers had noted no increased confidence and felt that the interview was too soon after the course for them to have had time to see any change in the trainee.

2. Interpersonal Relations

Seven area managers and three foremen B reporting on 10 trainees mentioned problems in the field of interpersonal relations. Nine trainees stated they had problems of this sort.

Some of the common problems mentioned by the trainees were: dealing with difficult customers, handling problem employees (particularly how to tell an empolyee off), when to be the good guy and when to be the boss, how to get along with the boss and "unreasonable people". Problems mentioned by the managers were: difficult customers, keeping the staff in line, telling an employee off, and getting along with people generally. One manager also mentioned that the foreman A had difficulty in making the foremen B realize that they are part of management. The foremen B mentioned lack of understanding, failure to communicate and lack of self-control as the main problems of their immediate supervisors.

Reported Change: Seven area managers and three foremen B reporting on nine trainees noted improvement in this area. Thirteen trainees stated that they had found the course to be a help in this field. Two trainees who had mentioned problems in this area felt that they had received no help from the course. Two managers and one foreman B stated that they had noted no change in the trainee on whose behaviour they were reporting.

A comparison of training needs and reported change in the field of interpersonal relations is presented in Table I.

TABLE I.

A Comparison of Training Needs and Reported Change in the Field of Interpersonal Relations.

Comments	Trainee Number*																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Manager noted problems in this area	x	x	x	x	x		x	x			x							
Manager noted improvements in trainee after course	x	x	x	x					x		x		x					
Trainee mentioned problems in this area		x	x		x		x		x			x	x	x	x			
Trainee stated course was a help in this area	x	x	x	x	x			x		x	x	x	x	x	x			x
Foreman B noted problems in this area	*	*	*	*	*	x	x	*		*		*		x	*			*
Foreman B noted improvement in trainee after course	*	*	*	*	*		x	*	x	*		*		x	*			*

*No subordinates were interviewed for trainees 1, 2, 3, 4, 5, 8, 10, 12, 15 and 18

This table shows the corroboration given to trainees' statements that they had problems or that they had found the course helpful in this area. However, of more interest are the cases in which corroboration is lacking. Corroboration may be lacking either because manager, trainee or subordinate is unaware of the existence of a problem, fails to perceive a change, or is unwilling to tell interviewers that problems exist. Thus, in the case of trainee number six, the foreman B was the only person who saw, or was willing to discuss, problems. In the case of trainee number seven, the manager, the trainee and the foremen B all stated that problems existed, but the foreman B was the only one who perceived any change in the trainee's behaviour after the course. The table does not show corroboration of one trainee's remarks by another trainee, such as a chief clerk's remarks by a foreman A and vice-versa. Although such corroboration did sometimes occur, its presentation would add little to the information given.

Managers used the concept of improvement to indicate that the trainee was more effective in his interpersonal relations after the course either because he now showed greater consideration of others or because he had adopted a less vacillating attitude in his behaviour towards others. Thus, one manager commented that a trainee was now more effective interpersonally because he paid more attention to what the other person had to say: "he listens to the other side of the story now". Another manager felt that a trainee was more effective because he now made fewer unnecessary apologies, he was less self-effacing and appeared less anxious to be well liked.

Trainees stated the course had been a help in this field in that it had given them ideas on how to improve relationships and that they had learned something about the causes of misunderstandings. Most of the trainees felt that the course had made them more cautious about making judgments on people, more anxious to hear both sides of the story and therefore less impatient with people. A common type of statement was: "I try to find out why".

The three foremen B who noted improvements in trainees all noted that the trainees listened to them or to the men more than they had before the course. Typical comments were: "he is more willing to accept suggestions than he was", "he listens to what I have to say" and "he asks my opinion more than he did before."

3. Supervisory Skills

Training in supervisory skills was mentioned as a need by six area managers and three of the foremen B, reporting on eight trainees. Two trainees stated they needed training in this field. The actual needs we heard about under this heading were: how to plan and allocate work, how to allocate the supervisor's time, the supervisor's training function, appraising staff, the supervisor's place in management, delegation of authority and cooperation with other supervisors. The two trainees who said they needed training in these skills were both inexperienced men in their first supervisory position. However, the trainees about whom five of the managers and three foremen B were speaking were all experienced supervisors.

TABLE II.

A Comparison of Training Needs and Reported Change in the Field of Supervisory Skills.

Comments	Trainee Number*																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Manager noted trainee needed training	x	x	x		x		x				x							
Manager noted improvement in trainee since course	x	x	x		x						x		x			x		
Trainee mentioned problems in this area			x												x			
Trainee stated course was help in this area	x	x	x	x	x		x	x		x	x	x	x	x	x	x	x	x
Foreman B noted problems in this area	*	*	*	*	*	x	x	*		*		*		x	*			*
Foreman B noted improvement in trainee	*	*	*	*	*		x	*		*		*		x	*			*

*No subordinates were interviewed for trainees 1, 2, 3, 4, 5, 8, 10, 12, 15 and 18.

Reported Change: Seven area managers and two foremen B noted improvement in the trainee about whom they were reporting. Sixteen trainees stated that the course was a help to them in this area, although only two of them had mentioned that they had problems. One manager and one foreman B stated that trainees, whom they had earlier noted had problems, had not improved since the course. A comparison of training needs and reported change in the field of supervisory skills is presented in Table II.

Here again the amount of corroboration given to trainees' claims can be seen.

In the case of trainee number 13, the manager and foremen B both stated that the trainee was an excellent supervisor. When re-interviewed they both said that the trainee had improved with regard to the staff appraisal activity. The manager said the trainee had carried out this activity much better than he had done before the course, and the foreman B told of the manner in which the trainee had assisted him in making appraisals of his subordinates.

4. Organizational Knowledge

The course was not designed to cover this area and consequently little change could be expected. However, some trainees did say that they had learned something of the other man's work. That is, during the break periods and while travelling to and from the sessions they had a chance to hear some of the problems of men outside their own field.

5. Other Changes

In addition to the changes reported above, there were other changes outside the framework of training needs identified in the first interviews. Some trainees for whom no training needs had been reported found the course a help in improving their supervisory performance. Some trainees also expressed changed views regarding the supervisory role. In an attempt to account for these facts, the researchers re-examined the interview data and abstracted the factors which appeared to be important in the trainees' supervisory performance.

After the list was drawn up, the participants were given a feedback interview and the list was then modified to take account of any changes or disagreements mentioned by a majority of those interviewed. This tentative list of supervisory performance factors is presented below.

SUPERVISORY PERFORMANCE FACTORS

I. Knowledge.

1. Knowledge of people: individual differences; needs of the individual; how people learn; individual motivation.

2. Knowledge of job: supervisory responsibilities; planning and allocating work; allocating one's own time; interviewing; discipline; the clerical aspects of supervision.

3. Knowledge of the organization: the interrelatedness of parts of the organization; the chain of command; the use of reports; help available from "staff"; "staff and line".

II. Role Expectations

Role expectations are the expectations a person has of how he will be able to perform in the supervisory role and his expectations of how others will behave towards him. Role expectations are formed on the basis of the person's ideals of how a supervisor should perform, and of how others should behave towards him, modified by his experience as a supervisor in other organizations or under other supervisors and by his knowledge of his present organization. A person's role expectations may be predominantly authoritarian, laissez-faire, or democratic. In actual practice the authoritarian type breaks down to either hard-boiled autocratic supervision or to a benevolent autocratic supervision. The main difference between the hard-boiled autocrat and the benevolent autocrat appears to be an interest in people. The hard-boiled autocrat treats subordinates as "hands", whereas the benevolent autocrat praises them and believes he is developing a "happy family group". These four types are the extremes; the actual expectations may be some combination of these. Although these are not the only expectations a person can have of the supervisory role, they appear to be the most useful ones in understanding supervisory performance.

III. Perceived Pressures

The pressures a supervisor perceives working on him affect the way in which he performs. This may mean a change from his role expectations. Pressures may be perceived as coming from the following sources:

1. From the organization: rules and regulations; safety rules, etc.

2. From superiors: pressure to fit in with superior's expectations.

3. From peers: pressure to cooperate, to fit in with their ideas of supervision.

4. From subordinates: pressure to act fairly, to give good supervision, to satisfy grievances.

5. From sources outside the organization: customers, local utilities.

6. Repercussions of his own actions: These pressures are generated in response to the actions of the supervisor, whereas the pressures previously mentioned exist independently.

IV. Support

The extent to which a supervisor is able to improve his supervisory performance, particularly when this means changing his behaviour, depends to some extent on the amount of support or encouragement he receives from those around him. Support appears most likely to be received from other supervisors who have attended a training course but can come from:

1 — Superiors
2 — Peers
3 — Subordinates

V. Climate

Climate refers to the general state of feelings about the particular total work group as a place to work. Taken over a period that evens out day-to-day fluctuations, the climate might be referred to as: friendly or unfriendly; autocratic, democratic or laissez-faire; cooperative or non-cooperative. Climate is determined by the personal attitudes, behaviour and interpersonal relations of all supervisors and all subordinates.

VI. Confidence

This factor has been discussed under training needs.

VII. Role Performance

The way a supervisor actually performs is based on his role expectations, but is affected by all the factors discussed above. Any one of the types of supervision mentioned under role expectations, or any combination of these, may predominate. That is, a supervisor may be predominantly democratic but cannot always explain his reasons for making certain decisions. Similarly, the autocratic supervisor may sometimes give explanations or allow the group to make a decision while even the most extreme laissez-faire supervisor must give some orders.

VIII. Degree of Problem Definition

The following four degrees of problem definition can be recognized.

1. Problem not recognized: supervisor does not see a problem others see, or does not see unsatisfactory performance as a problem.

2. Problem seen but condition defined as normal: supervisor feels irritated but defines the condition as part of the normal working conditions.

3. Problem partly analyzed: e.g. supervisor is dissatisfied with performance or relationships but misevaluates some roles.

4. Problem well analyzed: at this stage the supervisor is able to analyze a problem fully.

IX. Locus of Real Problem Cause

A supervisor's ability to eliminate problems depends on the location of the real problem cause. That is, it is harder for a supervisor to take corrective action when the real problem cause lies in the superior than it is when the real problem cause lies within the subordinates. Problem causes may be located in one or more of the following five positions:

1 — In the subordinates
2 — Among peers
3 — In the superior
4 — In the self
5 — In the situation (that is, factors external to individuals such as rules and regulations, working conditions.)

X. Degree or Nature of Action

The action taken by a supervisor to deal with the problem depends on the degree to which he has defined the problem and the location of the real problem cause. The following four degrees of action are tied to the degrees of problem definition and should be read in conjunction with these.

1 — No action taken.

2 — Expresses hostility or gives hints: "that's the way things are done around here".

3 — Discusses others' actions with them or takes ill-advised punitive action.

4 — Eliminates problems in one of the following four ways:

(i) By the supervisor recognizing that the problems cause is within himself. The mere fact of this knowledge being brought to the surface may make it possible to change his behaviour.

(ii) By developing activities. These activities may be either for the supervisor or for the subordinate.

(iii) By achieving a restructuring of the situation. That is, the supervisor can eliminate the problem by altering those features of the situation which are within his control.

(iv) By rational punitive action. Punitive action can vary from giving a man a lecture to firing him. It may be a last resort of the supervisor or it may be the first action, or only action taken. In either case if the problem has been carefully defined and the true location of the real problem cause found, then punitive action may be the rational method of eliminating the problem.

COURSE EFFECTS

Trainees showed a general gain in knowledge and awareness of these aspects of supervision. The course appeared to have a centralizing effect on supervisors' role expectations and on their role performance. That is, role expectations and methods of supervision appeared to vary less from supervisor to supervisor after the course than they did before the course. This does not mean that all supervisors had the same expectations or were performing in an identical manner after the course. Individual differences did exist and will continue to exist. However, it does mean that most of the trainees were attempting to use the knowledge gained and that they showed less variation in the quality of the supervision they gave than they did before the course.

It also suggets that there has been some improvement in the overall quality of supervision. That is, there was no evidence that any supervisor was made less efficient by attending the course and there were many claims that even the better supervisors had improved. If this is true, then the fact that there is less variation in behaviour from one supervisor to another than there was before the course means that the weaker supervisors had improved the quality of their supervision.

With regard to the claims of improvement reported above, and in connection with training needs, it should be noted that the researchers have tended to understate rather than overstate. All participants had been told, and appeared to accept the fact, that the object of the research was to evaluate the course—not to appraise the trainee. Despite this, or perhaps because of it, the researchers had to be aware of attempts to tell them what the interviewee thought they wanted to hear, and of trainees' claims of help received from the course which could not be backed up with examples. The trainer had become very popular, and these claims may have been attempts at repayment. In all cases, the researchers refused to accept such claims unless they were backed up with examples of improved performance. Similarly, the researchers refused to be drawn out regarding their own opinions and insisted that the interviewee's own opinions were needed.

CONCLUSION

The research has shown that the training course met many of the training needs and that most supervisors found it a help to them in improving their supervisory performance. Further, the improvements in supervisory performance were found to have been retained up to nine months after the course. This latter finding contradicts some research findings in other organizations and therefore requires an explanation.

Several features of the Hydro training course contributed to its success. Firstly, the course was designed by the trainers in consultation with a committee of practising supervisors.

Secondly, in the Georgian Bay Region training was given from the top down. Prior to this course, all supervisors in the region above the level of foremen A had attended a similar course, at their own request, so that they would be aware of what their subordinates were being taught. Later research suggests that this factor of support from others trained is one of the most important in ensuring that training is applied in the work situation. The managers themselves also found it easier to implement changes after their subordinate supervisors had been trained.

Thirdly, the competence of the trainer. The manner in which the trainer conducted the sessions contributed in no small measure to the trainees' willingness to accept training. In this course, the trainer did have the advantage of frequent feedbacks from the two researchers who observed and tape-recorded each session. Incidentally, the presence of observers with a tape recorder did not appear to hamper discussion.

Fourthly, a monthly newsletter was sent to all supervisors who had attended a training course, and this provided the supervisor with supplementary reading and also a measure with which to compare his own supervisory practices. This enabled supervisors to keep their knowledge of supervisory methods up to date and helped them recognize problem areas before problems developed.

Throughout the region the researchers noted an awareness of training, with a positive value being given to training. Thus foremen B repeatedly asked when they were going to get this training. This awareness was also noted in areas and in the regional office where supervisors were not taking part in the study. It appeared to have raised expectations on the part of all levels of supervision as to how supervisors should perform. Moreover, all were aware that other supervisors had these expectations and felt that they had to live up to them.

Not all supervisors made changes in their methods of supervision after the course. There are three possible reasons for this:

Firstly, resistance to training on the part of some supervisors. This is always a possible factor when people are given training that they themselves have not requested, and may be an unconscious resistance, as when a man says "the course is a good idea but I did not really need it".

Secondly, no change would show up when the supervisor was already performing in accordance with the principles advocated in the course. Actually, all the supervisors about whom this was said gave examples of how the course had helped them.

Thirdly, no change would occur when the course did not cover a supervisor's problem areas. This case can be confused with resistance to training, but is distinguished from it by the person's remarks: "I did not need it; what I do need is training in how to do so and so". The supervisor here is showing a positive approach to training and trying to show his real training needs.

VALUE OF THE RESEARCH

This study was valuable in that it:

- Produced evidence regarding the effectiveness of the course;
- Unearthed training needs which were not covered and which could be covered locally or in future courses;
- Indicated factors which affect trainees' ability to put new ideas into practice;
- Showed the trainer, through feedbacks, the effects his behaviour had on the group;
- Indicated the need to schedule courses better in order to relieve trainers of heavy work loads;
- Demonstrated the need to develop criteria of training needs, good and bad supervision, and improvement;
- Suggested areas for future research.

Future research should be undertaken to develop the criteria mentioned above and to discover if the supervisory performance factors presented here are of use in understanding supervisory behaviour.

RE-WRITING BUSINESS HISTORY

British business history has received much less attention than American. Partly this may be attributed to the abundance of material made available to American historians by anti-trust prosecutions and Congressional inquiries. Largely, however, it is due to the leanings of British historians on the one hand and the traditional secrecy of British business on the other.

Historians are now making amends, as indeed once they had embarked on the study of economic history it was inevitable they should, for economic history can get no further without business history than can political history without biography.

So far as the writing of business history is concerned, therefore, the universities now have more cause for complaint against business than *vice versa.* There are still too many companies that have their histories written with the intention of making their early connections with the slave trade look good. There are even, it seems, companies whose attitude to historical evidence is scarcely more admirable than that of the Ministry of Truth in Orwell's 1984.

—*The Manager*,
Journal of the British Institute of Management.

Canada and Export

One of our most articulate business leaders presents below his views on Canadian trade policy. His controversial suggestions were first made in a speech to the Canadian Exporters Association, and were received with such wide interest that the QUARTERLY *has undertaken to reprint Mr. DeYoung's speech in full below.*

H. GEORGE DEYOUNG

The subject of "Canada and Export" is a very complex one because of the diversity in thought and opinion which exists in our country. This is, of course, accentuated in our thinly populated land—spread over such great distances that the result is distinctly diverse interests.

The proponents of the principle that Canada is predominantly an agricultural country are historically of such strength as to have established major governmental trading policies which foster and protect their interests. There is also the group who feel that Canada's interests will best be served in the expansion of basic resources. They too, have successfully established favourable governmental policies. It is apparently accepted by the general public, and by some in our financial circles, and by our government, that the basic policy of Canada is the promotion of these two segments of our economy.

The third segment of our economy that is interested in export is that of manufacturing and industry. This segment has been growing to the extent that it has become the major contributor to the support of the government and to the employment of our people. However, there is very little governmental interest in fostering industrial growth because the manufacturing segment has not yet overcome the historical concept upon which Canadian policy is based.

It is not my purpose to cast gloom and look with alarm on Canadian prospects as far as export is concerned. I must admit, however, that it is not my purpose either to utter comforting platitudes which will add to the complacency which I think exists in our nation.

I should like to examine the statistics of the Canadian economy in the light of what has been historically taught and compare this to the situation as we find it at the present time. I am sure there are people who have a great deal more knowledge and experience in this matter than I have. There are people who will have an entirely different concept than I have. I am not setting myself up as an expert, but I would like to give you some idea of the way it looks to me. I earnestly hope to provoke some thought and some discussion which would result in the airing of many sides of the problem. If, by being provocative, some help for Canada's export results, my purpose will then be achieved.

TRENDS IN CANADA'S ECONOMY

The General Agreement on Trade and Tariff was entered into by Canada with the historical concept of our country being an agricultural and mining economy—"A hewer of wood and drawer of water." I do not wish to bore you with a long list of statistics since these figures are available and you may check them at your leisure. However, in 1948 statistics show that we had full employment; that we exported more than we imported. In the makeup of these imports, in dollar value, raw materials were 25%, partly manufactured goods were about 7%, and fully manufactured goods were about 68%. In the exports which made up the total, raw materials made up 32½%, partly manufactured goods about 25%, and fully manufactured goods about 43%. The value which manufactured goods contributed to the Gross National Product was 1.7 times the value of the contribution to the Gross National Product of agriculture, forestry, fishing and trapping, and mining

combined. Manufacturing was almost 29% of the Gross National Product, the total of the others was 16.6%.

The value of the American dollar, in Canadian funds, was $1.10. The pound Sterling was $3.08. The Canadian labour rate was about 60c an hour less than it was in the United States and about 60c an hour more than in the United Kingdom.

Since all statisticians like to know trends, you may compare these figures with 1946 and determine that the difference in exports and imports was much greater in favour of exports. The trend of dropping exports volume was already apparent. The wage differences between the United States and Canada were 40c in favour of the United States, but only 34c in favour of Canada as compared to the United Kingdom, so the gap in wages was already widening as far as what we now term the low wage areas was concerned. These figures indicate that the basic concept of agriculture and the extractive industries being the main basis of our economy was open to question even as we entered G.A.T.T.

Today we have 6% to 10% unemployed, depending on what you are trying to prove. We import more than we export, and while the volume of the world's trade has doubled, the percentage of world trade accounted for by Canada has not increased. Imports have increased by $2,124,000,000. Of the imports today, raw materials are about 18%, partly manufactured goods about 5½%, and fully manufactured goods are now 77% of the total. As far as the basic policy is concerned, the effort to open the Canadian market to manufactured imports has been outstandingly successful.

Of the quantity of exports, the value of raw materials is now 31%, which is a drop of 1.3%; partly manufactured goods are up about 7.6%; the export of fully manufactured goods is down about 6%. Total exports have increased one billion dollars, which is less than half the value of the increase in the imports.

During the intervening years, the value of manufactured goods, measured as a contribution to the Gross National Product, has risen so it is now 2.4 times the value of the contribution of agriculture, forestry, fishing and trapping, and mining combined, or 28% for manufacturing to 11.4% for the others. Therefore, their contribution to the Gross National Product has decreased 5%, which is mostly a decrease in agriculture. The value of the American dollar is now 96c, which is 14c cheaper than it was in 1949. The pound Sterling is $2.69 Canadian, 39c cheaper. The Canadian labour rate is now 40c less than it is in the United States, which is equal to that difference in 1946, but it is 94c more than it is in the United Kingdom, which is an adverse change of 34c since 1949, and of 60c since 1946.

Just one more interesting comparison — the Canadian increase in the Gross National Product since 1949 is 76%. This has taken place with an increase in population of 21%. In the United Kingdom, however, the Gross National Product has increased 65%, with only a 2% increase in population. In Sweden there has been an increase during this same time of 83% in the Gross National Product, with no increase at all in the population. I think this gives us some idea of the relative gains in productivity.

TRADE RESTRICTIONS

It may be unnecessary for us to examine import restrictions, other than to say there has been nominal liberalization of trade restriction through the effort of G.A.T.T. There is still, however, discrimination against dollar area countries. Imports are still subject to quota or license restrictions, or both, in most countries except Canada. We now have the Common Market in Europe, and the Little Common Market in Central America, both of which are designed to liberalize trade between the members while presenting restrictions against the outside world.

The New York Bankers Trust has this to say about the Little Common Market:

> "Colombia and Ecuador have recently negotiated a pact with Panama and Venezuela for a regional common market, or customs union and free trade zone. Implementation will be a long range task, and any 1959 efforts to put the 'Little Common Market' into effect are likely to be of no immediate help to the Colombian and Ecuadoran economies. The proposed common market is nonetheless of real current significance to United States shippers, since it demonstrates the Latin American trend toward regional markets, from which certain United States merchandise may be squeezed unless United States manufacturers establish local plants in key Latin American countries."

Now is the time for Canadians to listen too. Particularly note the advice to establish plants.

The European Common Market has certain characteristics as to its markets which are not much understood in Canada. Combines of manufacturers for greater efficiency, and for obtaining captive supplies for their manufactures, and captive markets for their sales, are usual and are increasing. Manufacturing

costs in the Common Market are kept lower than are apparent by contributions to combines such as exist in their steel industry, where the members of the metal fabricating trades contribute to the scrap and raw materials pools. The governments of these countries contribute and loan money at low rates for industrial development, particularly if it is for export. This is not only true in the Common Market but it is true in Commonwealth countries as well. A double pricing system, protected in the domestic market through quotas, is common.

Nationalism is strong throughout the world and is getting stronger. A particular example of this is the protectionism which is now being carried out in South America. These governments have almost excluded importations in order to establish industries in their own countries. Duties up to 500 and 1000% are not uncommon and deposits equal to, and in some cases many times as much as, the value of the importation are needed in order to obtain a license. You may have seen the article on March 12 noting that British Guiana has boosted the tariff against Canadian potatoes by 1000%, while their Trade Minister declares that they are giving serious consideration to means for increasing trade with Canada. Scarcely any of the G.A.T.T. members, excepting Canada, have hesitated to invoke the escape clause against imports into their countries when they felt it hampered their growing industrialism.

And now we have Russia.

I think it fitting to leave it with that statement as an underline to this recital of the changes in the conditions affecting Canada's export trade since 1949.

NATURE OF CANADIAN ECONOMY

Possibly we should stop and consider what all of this adds up to. I think the figures cast reasonable doubt on the premise that Canada is predominantly an agricultural and mining economy.

I wonder if G.A.T.T. has not been more successful in helping other countries than it has in helping Canada. We have not improved our percentage of the enlarged world trade, and we certainly haven't improved our export position. We have drawn a losing hand in that, having opened all our markets, we have played most of our strong cards and have little left now with which to bargain. We have weakened our manufacturing economy by allowing the increases in the domestic market to be taken by manufacturers in other countries. This is placing us at a handicap at the very time when greater efficiency is needed, more so than ever before. The relative figures on labour cost need no elaboration.

However, there is one statement which you hear very often and with which I disagree. The statement is that there is fear that we may price ourselves out of the world markets.

The figures mean that we have already priced ourselves out of most of the export markets. The rising costs in this country have caused companies who were exporters to drop out of the market. Within the month I have personally spoken to the presidents of an aircraft parts company, a pipe manufacturing company, a bearing manufacturing company, an alloy smelter, a textile industry—all of whose companies used to be exporters, but are no longer. Increasing nationalization with quota restrictions for newly installed industries in foreign countries have cut out those not overcome by high costs.

Now we have a trend in this country of these companies ceasing to be manufacturers and becoming importers. Being from a manufacturing industry, I have felt badly about the drop in the export market from Canada of our own company, resulting in 700 fewer jobs, but I have taken some comfort in the platitude that the raw material people were carrying the day.

I have been getting less confident of this since I have been reading many speeches from the Pulp and Paper industry, indicating the difficulties they are having with the competition from the Southern States and from Scandinavian countries. This week I spoke to the president of one of Canada's larger basic commodity mines. I asked him what he thought of their chances in the export market. Can you meet the world prices? "No", he said, "only in special instances where freight rates are right. Our costs are now too high and our union is after raises sufficient that if granted we will be further restricted." This would seem to indicate that we are not a natural in the field of export any more. We have few commodities which no one else has, and with our costs tied to the United States we are really in competitive trouble. Do you suppose rising costs are affecting those for whom our basic policy exists too?

A POSITIVE PROGRAM FOR ACTION

Well, what are we to do? I think we are in a critical position. It must be recognized that conditions have changed and there must be a major change in the Canadian basic policy as a result. There is only one thing to do otherwise. Put your manufacturing plant in a location from which you can compete in world markets.

This does not solve Canada's problem and is hardly acceptable if we are interested in Canada's future.

We must first of all make sure that we stop thinking rigidly and historically and start thinking flexibly about becoming a marketing country. Let us look realistically at what the old concept of exporting raw materials is doing. Look at it from the angle of balancing our export trade in man hours. The cost of man hours in Canada is what is jeopardizing our position. Why should we, even at equal cost of man hours, be satisfied with exporting 10 man hours of work while opening our markets here for an import of 100 man hours of work? As to the concept that our people, even though higher paid, are producing more, this has long since been disproven and on the figures I gave you as to population, it is obvious that it is not true nation-wise. The breakeven point of Canada has risen.

Secondly, I think it would help if people would stop believing that the only way we can sell is to buy. There was an editorial in the Toronto *Globe and Mail* asking what we are going to buy from Poland now that the Polish have bought wheat from Canada. Poland will buy wheat from us when they want wheat, if they want the quality of wheat which we have, and if it is at the lowest price that they can buy this quality for. People will buy from us in Canada if we have something they want, if the quality is good, and the price is right. Between two equal products, the customer will buy the cheaper one whenever he can. If this were not true we would have no difficulty with the "Buy Canadian" campaign in Canada.

I can give you the names of several customers of ours in Canada who are manufacturers here, who have ceased buying their raw materials in Canada even though they are made here. They are buying them from low wage areas. If this will happen in a country where people are close enough to be on a first names basis, why should we think it won't happen between nations? Do you buy something from everyone you sell to?

Let us change the motto. I suggest that the shoe is on the other foot. We are the biggest buying country in the world. Let's not buy any more unless they buy from us.

MEETING COMPETITION

But fundamentally we are going to have to meet competition if we are going to sell. We must get the cost down. To do this we will need solidarity of all the economic groups. And with this, we will have to resist cost increases at home for any reason. Instead of a law to prevent combinations of industries which would increase efficiency, we need an act to force the combination of industries so as to have high productivity per man hour at such a cost that will allow us to compete in the world market.

To get our costs down is not going to be very simple, particularly with the costs tied to the United States as they are. To break this American control of our costs is not a simple thing. Perhaps it isn't even possible when over 50% of Canadian industry is owned in the United States and a great proportion of our labour is controlled there. No one argues with the premise that we wish to have a continually rising standard of living. Perhaps now we must consider that our standard of living is pretty good. And if we will wait for three or four years before giving it some more boosts, the costs in other countries will increase sufficiently to help us out.

Canada cannot support American standards. We have not the home market nor the governmental policies to allow this. With American-owned companies allowing their wage settlements to include Canadian plants, they disturb our economic balance and create pressures which managements and governments have not withstood. These wage settlements put Canadian workers under pressure to get as much, or more, than the people next door.

The unions have proved that they are too strong to be resisted by one company or by the government, and they don't worry about costs or the export market.

They have not yet proved that a strong union of employers, who say we will stand together—and do it—cannot stop this constant demand for more. If we must go through a period of strife where the results of present policies are to be reaped, then industry and mining should combine to protect their futures in the export and the domestic market.

If employers dynamically combine to stop this being forced out of business we can stop it. Let's support each other instead of supporting the labour leaders. This will give our employees the job security they want and which the unions are no longer providing.

On the subject of foreign control of our industry we should recognize that in other lands there are rules that make it mandatory, or at least advisable, for the citizens of the country to have more than casual interest in the control of the business environment. In most of the countries that our company has had experience in, some or all of the directors must be nationals. In many countries, financial control of the company is required to be held by residents of the country in question. The hiring of as many local people as possible is also among the rules. Our government could take some steps which

would aid the financing of the growth of our industries from within our own country. The growth might have to be at a slower rate than it has been in the last few years, but this might not be a bad thing if it gives the other countries a chance to catch up with their costs.

One thing that control of our own industry would do is to discourage the importation of so much capital which is now supporting the difference in the Canadian dollar. The Canadian dollar's present level in relation to the American dollar is entirely unreal. It is estimated that without this support from incoming capital, the dollar would be somewhere around 85c or 88c American. An 85c Canadian dollar, compared to the American, would do more for our export industry, and do it quicker, than any other one thing.

All of the segments of the economy will have to re-evaluate the profit margin which we take from the export. In order to stay in the market we may very well have to consider export as an overhead absorber, and accept the fact that low profits are inevitable, at least until the other countries' costs catch up. This is the concept that is taken in many of the countries with which we are competing. There is a double pricing system in existence in almost all of these countries.

THE DOMESTIC MARKET

One of the topics which exporters generally avoid discussing is the domestic market. However, if we wish to be a strong exporting nation we are going to have to be one that has strong domestic production too. Industry must be large enough to be efficient. Our mines cannot be marginal, they must be low cost producers because other countries can produce just as much per man hour as we can.

Our agriculture for export cannot be on a policy of protecting the "poor farmer". Lately, in the papers, I have been reading a catchy phrase, "Vertical integration of agriculture." This seems to be a bad thing because it eliminates the poor single-family farm. If we want to be exporters it may be necessary that vertical integration be considered a good thing, or any other kind of integration which will allow us to produce at lower costs. If Canada could get rid of the cost of subsidization of agriculture (which costs every Canadian family about $50 a year) we might get closer to being competitive. This subsidization is another Americanism which we cannot afford.

The Exporters' Association should be changed into a dynamic executive-type organization, one which will give leadership and operate on a close day-to-day basis with its members, assisting in the selection of markets throughout the world to which Canada can export, and guiding actively the efforts of our members in entering them. Long-term planning on a national basis is necessary.

We have examples right here in Canada of what I mean. You may have read the report of the speech which Sir John Wedgewood made to the Canadian Association of British Manufacturers and Agencies. He stated very plainly that unless they get 5% increase every year in the Canadian market, the British exporters should consider that they are losing ground. Canadian exporters should unite with this solidarity so that we too may be holding meetings in various foreign markets in which we are competing, to determine the amount of the market which we are going to take. Sir John has some good advice for Canadians on how to get along in the export market. Among his suggestions are:

> Put a majority of your company's brain power on marketing.
>
> Modernize your plant.
>
> Put in modern costing systems.
>
> Train your people to be efficient.
>
> Advertise in the foreign market.
>
> Make capital investments in warehouses and inventories so as to be able to give service.

Let's take this to heart. We must really go into business in the export markets.

We have been asking our government for export financing which we need. It will not be helpful unless we get our costs down. Exporters are going to have to take some risks too. Financing from somewhere will be needed to do business in Spain, where dollars must be earned outside the country. Barter deals must be acceptable if we are to do business with many lands. Financial aid will be needed to get your goods into South America over the deposit requirements. Some of this is coming from the exporter's pocket.

GOVERNMENT ATTITUDES

A change in the attitude of our government will also be quite necessary. G.A.T.T. being what it is, and conditions having changed, let's change G.A.T.T.

Our government has not shown any inclination to make export easy for manufacturers through the methods employed by the competing countries. In most of these one can get capital expenditures financed by the government. There are now being built in England, Sweden and Australia, steel mills aimed at the export market. There are government-

financed mills in many other countries too, particularly in the Common Market.

In Belgium our own company is getting a loan at 3½% for 15 years—no repayments of any kind for five years—the money to be used for capital expenditures.

In these countries, combines are possible, which result in lower than actual raw material costs. This results in the domestic market subsidizing the export market.

If the Canadian government doesn't want this sort of thing, then they should not rush in to provide work for those unemployed by the economic fact that labour has priced itself out of the market. Let the labour leaders take responsibility for their decisions as to the cost of labour.

Wouldn't it be refreshing if we were to read in the paper, one time, of a government official advocating that people in other lands buy Canadian materials other than wheat? Rather than reading, as we did last week, that Mr. Drew stated "The Canadian market is wide open, why don't you move in?" I believe the time is much better for expecting a more vigorous support of Canada by our government in all phases of trade. Canadian trade, that is. This is well borne out by the success which is anticipated in the efforts to remove quota restrictions against Canadian oil.

BASIC POLICY

A change in basic policy is needed. This would mean that the governmental policy for the advancement of Canada as a "hewer of wood and drawer of water" might become the subject of revision. In 1956 income to the government from taxes was 104 million dollars from agriculture, mining and forestry combined. Compare this with income of 701 million dollars from taxes on industry. It might be good business to consider a change.

However, this issue is broader than just that of Canada as an exporter. The issue really is "what is Canada's future to be?" Instead of a basic trading policy which mostly says that all should be sacrificed for raw materials and agriculture, or a vague thing that our basic policy is to develop world trade (which one hears very often, and is unable to find out just what it means), the basic policy should be to promote a strong and growing Canada. And the policy should be flexible enough to change as the times require. Unless we can get some change, not only in the attitude of the government but in the attitude of the three segments of the economy interested in export, and also in the minds of the general public in Canada, there is a very little left for the exporter except to move his manufacturing establishment into the market to which he wishes to sell. Under our present policies and concepts we have priced ourselves out of the world markets. We have two choices—change our thinking and act to remedy the matter, or move out.

If we approach the future as a united Canadian people, backed by and supporting a Canadian government not ashamed of being Canadian, I am sure the change can be made.

THE HUMAN SITUATION IN INDUSTRY

The greatest contribution which management science has made to what one might call the net social dividend of industry to the worker—including in that expression besides his wages his satisfaction in his work, and happy relationships with his fellow workers—is in the realization by management that these personal relations are of fundamental importance in industry, even from the strictly economic aspect. To be efficient, so runs the newer thinking, the industrial undertaking must constitute a social group; a social group which is harmonious, confident in its leadership, aware of and interested in the common aim of the undertaking. All the immense discussions of worker relations, communication, joint consultation, and so forth, centre round this one concept. This concept is an ideal which is not always sufficiently sought, by no means always realized, and is affected by all sorts of currents and counter currents within and without the individual undertaking. But it is a concept which has established itself, in our time, in the principles of management.

—*The Manager*,
Journal of the British Institute of Management.

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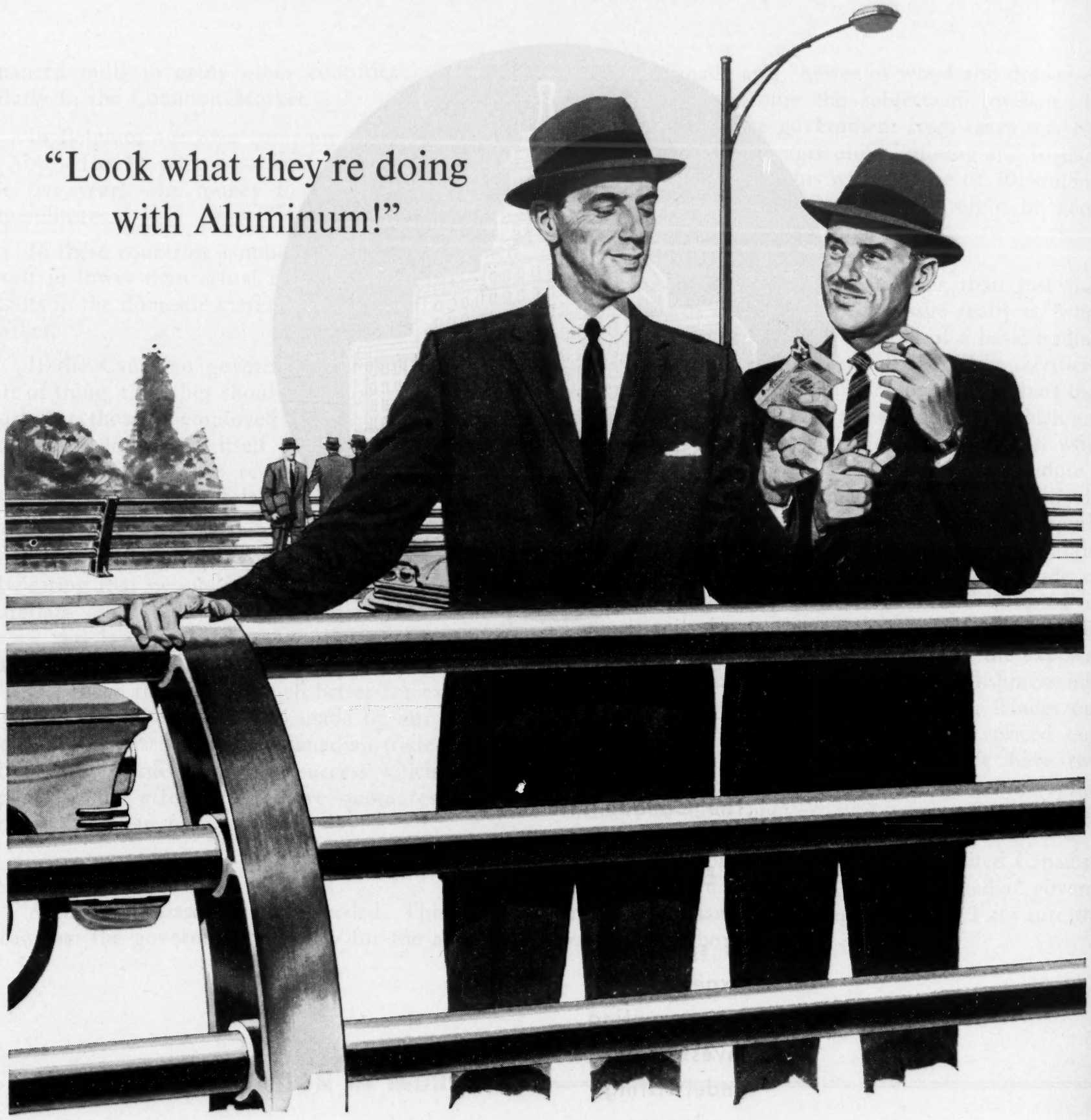

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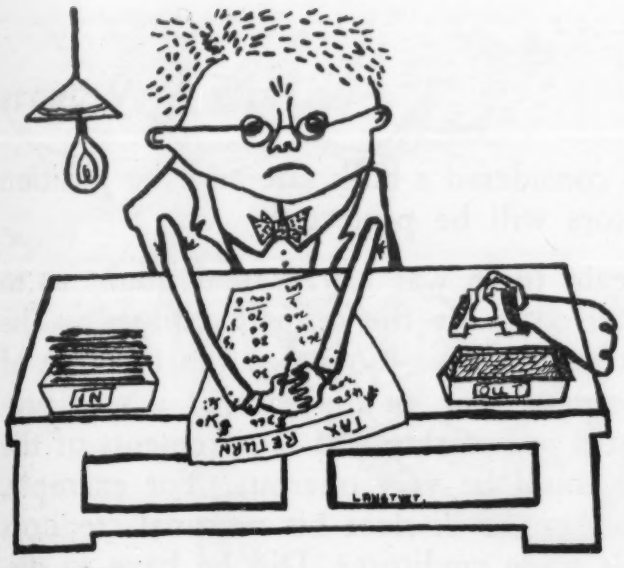


Taxation and the Businessman

K. W. LEMON, F.C.A.

UNITED STATES CITIZENS RESIDENT IN CANADA

A recent change in the United States tax law will serve to remind United States citizens who reside in foreign countries of the peculiar position in which they are placed by the laws of their country. Unlike our Canadian law, which taxes only the total income of residents or income earned in Canada by non-residents, the United States law reaches out to tax the world income (and capital gains) of all United States citizens no matter where they may reside. This general rule is modified only by limited exemptions which are provided under certain circumstances in respect of compensation received for personal services performed outside the United States. While the law has been in effect in this form for many years, prior to 1958 citizens residing abroad were not required to file United States tax returns unless their income (other than exempt earned income from foreign employment) exceeded $600. For 1958 and future years, however, a non-resident citizen is required to file a tax return with the United States authorities if his income from all sources (including exempt income from foreign employment) exceeds $600. As a result a great many United States citizens resident in Canada will be required to file United States tax returns for the first time in 1958 even though no tax may be payable to the American authorities.

In some circumstances this unusual feature of the United States tax law can attach a considerable premium to the retention of United States citizenship by foreign residents. In the case of residents in Canada this premium may be no more than the nuisance of filing a second tax return (in addition to the required Canadian return) and dealing with a second taxing authority, as in many cases the exemption provided for earned income and the credits allowed in respect of foreign taxes paid will preclude any double taxation. For the United States citizen who realizes significant capital gains during his residence in Canada, however, the premium involves a substantial cost in additional taxes. The Canadian law does not impose a capital gains tax, and, accordingly, United States citizens resident in Canada are required to pay the full U.S. tax on such gains as no exemptions or foreign tax credits are available. This is a situation which may well affect the management of the investment portfolios of our Canadian neighbours who have retained their United States citizenship.

The United States law may also impose a degree of double taxation on citizens resident in Canada who spend any considerable amount of time on business in their own country. This results from the fact that the exemption for foreign earned income does not extend to compensation received by a citizen residing abroad for services actually performed in the United States. Thus the portion of the salary received by a U.S. citizen from his Canadian employer in respect of services performed on trips to the United States is fully taxable in the United States. This will result in double taxation, as it appears unlikely that the Canadian authorities will allow full credit for taxes paid on such income to their American counterparts.

Fortunately, Canadian citizens residing abroad receive better treatment under our Canadian statutes. Unless they are considered to be "ordinarily resident" in Canada, they are subject to Canadian tax only on their income from Canadian sources.

Canadian Law and the Businessman

PETER V. V. BETTS

THE BULK SALES ACT, 1959

The Bulk Sales Act, 1959, replaces a former Statute by the same name, eliminates some previously existing loopholes and makes specific provision for instances where strict compliance with the Statute is not practical. Such legislation is not new, and in fact, is almost universally considered necessary to protect creditors of dishonest or impecunious sellers. In the absence of such a Statute there would be nothing to prevent a man from absconding with the proceeds of a sale leaving the creditors of that business to fend for themselves. The new purchaser could scarcely be held liable for the seller's debts especially if (as in the typical case) the seller was careful to see that the purchaser did not hear of them until after the sale. By this time, the seller is apt to have vanished, leaving no recourse to his suppliers and others who had extended him credit.

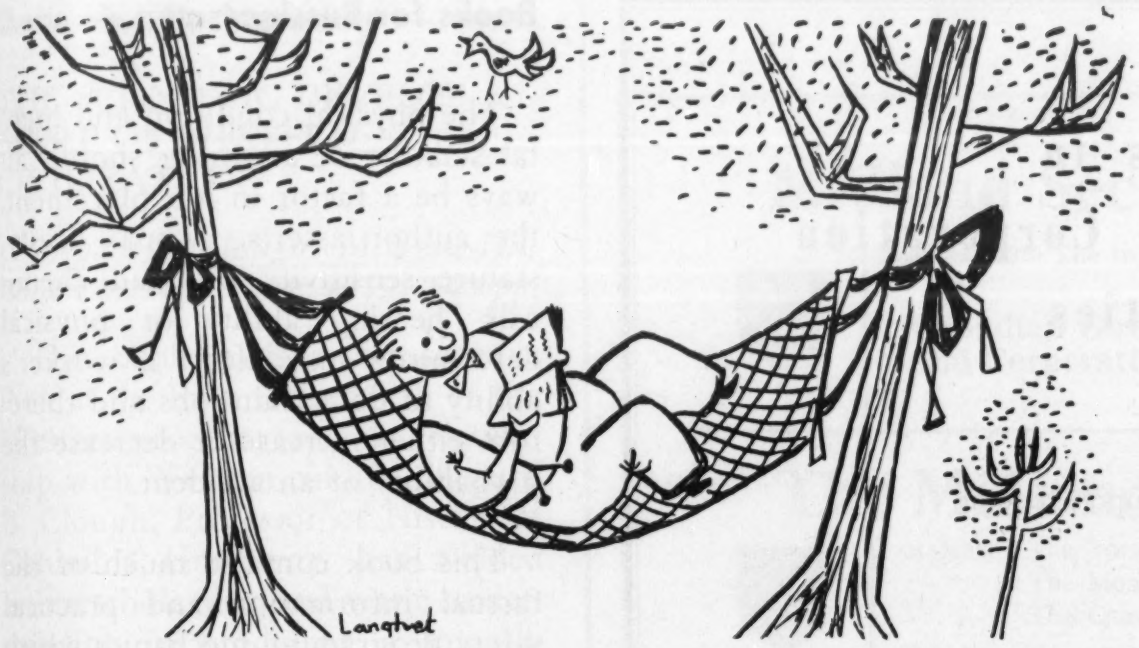
The Bulk Sales Act prevents a business man from selling out of the usual course of business without following the procedure set out in the Act. The onus is on the purchaser to see that the seller complies strictly with the Act. If the purchaser allows himself to be rushed into the transaction before compliance he (the purchaser) remains liable to the seller's creditors whether or not he knew of them. Basically, the seller is made to give notice in The Ontario Gazette, to disclose the names of his trade creditors and the amount owing to them, and do one of three things: either pay them off in full; obtain waivers; or else, with the consent of the majority of the unsecured creditors (60% in amount and number), pay the proceeds of the sale to some third person designated as a trustee to distribute the proceeds rateably among the creditors. There is nothing very new about this. The Bulk Sales Act, 1959, does however clarify certain points which hitherto were in doubt, and in other ways facilitates compliance with the Act without real prejudice to the position of the creditors.

For example, there always was some doubt as to just what was meant by a "bulk sale". This expression is now defined in the Act quite clearly to mean "a sale of stock in bulk out of the usual course of business or trade of the seller". It is thus made quite clear that a bulk sale need not be a sale of all the assets or substantially all the assets of a given business. So long as the sale is sufficiently large or of such importance as to be considered out of the usual course of business, then for the purposes of this Act it is considered a bulk sale and the position of the creditors will be protected.

Then again there was always real doubt as to who was referred to by the term "creditors". The problem was perhaps not too serious in the case of a limited company, but, in the case of a sole proprietorship or a partnership, the requirements of the previous Act could be very onerous. For example, did the seller have to disclose his personal creditors as well as his trade creditors? Did he have to disclose, for example, his wife's creditors? Did some provision have to be made for contingent creditors such as the bank who perhaps held the seller's guarantee to some third party's account? Such points of doubt were extremely troublesome when completing the purchase and sale of the business. The Act now makes it clear that claims of non-trading creditors and contingent creditors are disregarded except on distribution. The consent of unsecured trade creditors only is required to a sale. Furthermore, any sale may, in special circumstances, be exempted from the Act by Court Order, and in cases where creditors' claims do not exceed $5,000 sales are automatically exempt in part from the provisions of the Act.

Another point which used to be a source of irritation in the previous Act was the stipulation that the purchaser could not pay more than $50 as a deposit. This provision was, of course, a constant source of annoyance to real estate agents and business brokers who constantly (and perhaps wisely) seek to secure their fee in advance. The deposit is the traditional source of their payment, and quite obviously a $50 deposit would not meet with their unqualified approval. In any event, such a small deposit was not very realistic even from the point of view of the seller, and the new Act has, very wisely, increased the maximum allowable deposit to 10% of the purchase price, which is more in keeping with modern business requirements.

The foregoing are perhaps all minor points of detail, but the main thing to remember is not to be lured into completing the purchase of a business without giving close attention to provisions of the Bulk Sales Act. The consequences of so doing are that if the person from whom you bought is dishonest or even careless you may have to pay *twice.* Having paid him once, you may have to turn around and pay his creditors a *second time.* Clearly, the Bulk Sales Act, 1959 is of more than mere academic interest to students of business.



BOOKS FOR THE BUSINESSMAN

	Reviewed in this Issue	*Reviewer*
MODERN SAFETY PRACTICES	• Russell DeReamer	• *R. E. Sproule*
THE ECONOMIC DEVELOPMENT OF WESTERN CIVILIZATION	• Shepard B. Clough	• *R. E. Sproule*
WORK SIMPLIFICATION	• Robert N. Lehrer	• *Andrew Grindlay*
LABOUR AND ECONOMIC DEVELOPMENT	• Walter Galenson	• *R. E. Sproule*

MODERN SAFETY PRACTICES

Russell DeReamer. John Wiley and Sons, Inc., New York, 1958. 357 pp., $7.00.

This book was conceived to provide managers and supervisors, safety engineers, and students of management with a comprehensive and integrated coverage of modern safety practices. Text material is written to pinpoint the relationship between safety and good management.

Mr. DeReamer states that the key to an effective safety program is the supervisor, who must concentrate on the development of the proper awareness or development of a healthy climate.

Individual safety awareness is closely related to:

- an employee's temperament
- his attitude towards his work
- his ideas of obedience
- his sense of responsibility
- his respect for his boss.

Through proper consideration of the above factors, the safety efforts of the supervisor can lead to improvement in departmental production, quality and cost performance, and greater acceptance of his leadership on the part of the employees he supervises.

In considering the prevention of accidents, the author would have us accept three fundamental theorems:

1. Accidents do not occur by chance, but have a cause.

2. Steps must be taken to control them.

3. Without correction, the same type of accident will re-occur.

Contrary to popular belief, any attempt to control accidents by identification and elimination of the so-called "accident-prone" would be of little value. Mr. DeReamer maintains that only a very small percentage of the population can thus be categorized.

Good results in accident prevention on the part of supervisors depend largely upon

- development of safe working conditions,
- creation of safe work habits on a personalized basis with each individual worker,
- promotion of employee participation in safety,
- corrective action where safety rules are ignored.

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Books for Bussinessmen — cont.

The physical condition and mental stability of a worker should always be a factor in job placement, the author asserts. Visual acuity, stature, sensitivity to certain chemicals, hearing ability or physical deformities may affect a worker's ability to do certain jobs and therefore either increase or decrease the probability of an accident.

This book contains much of the factual information and practical safety programing mechanics which the reviewer has seen expounded in other general and specific works on the subject of safety.

However, it does feature a fresh approach in dealing with such matters as accident proneness, psychological factors of safety, man-machine relationships, environmental conditions, and the future role of the safety engineer. A series of 11 accident case histories offer practical exposition of the text material.

The first chapter — "Safety—A Management Practice" could well bear reading by any operating executive. From that point on, however, notwithstanding the interesting and informative manner in which it is written, the book would be of primary interest only to the specialist.

A must for safety engineers or safety supervisors, some of the material would also be useful to a training director in planning a development course for supervisors, an industrial psychologist, or a sciologist seeking general orientation in the field of safety for purposes of clinical experimentation.

R. E. Sproule,

Instructor in Business

Administration, U.W.O.

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THE ECONOMIC DEVELOPMENT OF WESTERN CIVILIZATION

Shepard B. Clough. McGraw-Hill Book Co., New York, 1959. 540 pp.

This book takes a retrospective look at the historical growth of the Western economy and its relationship with Western culture. Shepard B. Clough, Professor of History at Columbia University, has welded astute scholarship and warm understanding in producing a smooth-flowing, intensely-interesting book.

Economic growth has been chosen as the framework because it is the author's firm conviction that economic well-being is a necessary condition for attaining high levels of civilization. It not only accounts for one of the essential elements of our definition of civilization—freedom from want—but it provides an economic surplus which allows people to devote their attention to the arts.

Commencing with the economic implications of the pre-Greek Ages of Copper and Bronze, the author emphasizes the impact of changes in productive processes, long-term trends and factors of social change through the ages in considering the traditions, motivations and problems of present-day capitalism. Among the most significant contributing factors are: availability of natural resources, population growth; development of trade and transportation; money, money markets and banking systems; agricultural evolution; discovery of the new world; scientific and technological development; war as an instrument of state; industrialization and the great depression.

It is often difficult to ascertain whether Professor Clough is an economist well grounded in Western history, or an historian who sees

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Books for Bussinessmen — cont.

clearly the cardinal role of economics in the shaping of our destiny. He maintains that he is in the latter camp.

History is the all-encompassing framework. Only in history, recognized as the study of the totality of human activity, is it possible to arrive at a synthesis of economic, social, political, intellectual, psychological and geographical aspects of life in the dimension of time. Only in historical study are we able to understand the universality, intensity, and duration of various aspects of human behaviour.

The author's analysis has done much to fill in the gaps left in any purely historical examination of our development; at the same time it offrs a word of hope to exponents of creative industrial capitalism.

This reviewer would not hesitate to recommend Professor Clough's latest work, in its entirety, to any reader of the *Business Quarterly.* It assumes little, if any, prior knowledge of economics or history, yet it achieves meaningful depth of understanding which is skillfully transmitted to the reader.

R. E. Sproule,
Instructor in Business
Administration,
U.W.O.

WORK SIMPLIFICATION

by Robert N. Lehrer, Prentice-Hall Inc., New York, 1957. 394 pp., $9.25.

If you would like to increase productivity in your organization, be it factory, office or home, this book will help you.

In it Dr. Lehrer suggests a step-by-step procedure for simplifying work with several case histories

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illustrating both successful and unsuccessful applications of the technique.

The science of work simplification is a relatively new one, dating back only 50 years. At that time job studies were mainly aimed at making the workers work harder. Now, however, industry is studying jobs with a view to making them simpler and easier to perform. Results are confirming the belief that making the job easier has benefits for labour, management and society.

In this book, Dr. Lehrer assumes the reader has no prior knowledge of the subject and leads him through several work simplification studies. He points out inefficient motions that are often unwittingly employed and suggests better ways of performing the movements. He describes the "Heart Kitchen", a kitchen designed to minimize the efforts required by a housewife in cooking. Finally he devotes a chapter to describing how the U.S. government studies its operations (clerical and other) in an effort to select the ways of doing work that are easiest on the workers and therefore most efficient.

When a change in the method of doing a job is resisted by the worker, says Dr. Lehrer, there is always good reason for it. It is a symptom of deeper trouble such as uncertainty, lack of understanding, and fear of the consequences of the new method. The individuals, he claims, try to maintain their inner security by resisting the change.

In answer to the question of where and how to start a work simplification study, the author replies "The only way to eat an elephant is bite by bite." Similarly, start a work simplification study at the place in the organization that needs it most.

This book, claimed to be the first on this subject, is an interesting account of the science of work simplification. Because it is of a technical nature it probably will not find too much usage in Schools of Business Administration. However, people involved in conducting methods studies and those in Schools of Industrial Engineering will find it a practical guide to better work simplification.

Andrew Grindlay,
Instructor in Business
Administration, U.W.O.

LABOR AND ECONOMIC DEVELOPMENT

Edited by Walter Galenson. John Wiley and Sons, Inc., New York, 1959. 304 pp., $6.75.

This book is one of a series from the research program of the Institute of Industrial Relations, University of California, Berkeley, where the Editor serves as Professor of Industrial Relations and Chairman of the Center for Chinese Studies. A five-part symposium on the evolution of the labour movement in India, Japan, Egypt, French West Africa and the British West Indies, it is the first book to deal empirically with labour problems of economic development.

Through a generous grant from the Ford Foundation, studies in this regard were conducted in cooperation with industrial relations centers at Harvard, Princeton, Massachusetts Institute of Technology and the University of Chicago.

Authors of the five sections are Elliot Berg, Ford Foundation Foreign Area Fellow to Africa; Frederick H. Harbison, Director of Industrial Relations, Princeton University; William H. Knowles, Ful-

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bright Research Fellow to the British West Indies; R. A. Scalapino, Professor of Political Science, University of California, Berkeley; and C. A. Myers, Director of Industrial Relations, Massachusetts Institute of Technology.

All these essays explore a particular category of social phenomenon which has its origin in industrialization: the creation and disciplining of a non-agricultural labour force. The analysis covers such areas as: economic and cultural background, patterns of industrial development, emergence of a labour force, growth of labour organizations, management attitudes and organization, the role of government, nationalism, lack of labour leadership.

Editor Galenson sums up the main thesis of the undertaking very aptly in his introduction . . . . "Development planning under democratic auspices must accept as a major variable the growth of labour unions. These organizations are likely to be highly political and imbued with a radical ideology. They will inevitably impose some costs upon the community and reduce the practicable rate of investment. However, if properly handled, they perform the vital function of channeling worker protest into socially useful forms, and help prevent the subversion of democracy. The role of the statesman is to minimize the cost and maximize the positive attributes of nascent unionism."

This is indeed an ambitious undertaking, an exploration of the factors that influence labour-management relations at various stages of industrialization in widely differing social, cultural and economic environments.

While the general reader might find its comparisons interesting,

continued on next page

this reviewer suggests that it is essentially a work which would be of concern to the labour historian, the sociologist, or the industrial relations practitioner who enjoys the luxury of time available for a broadening of his socio-economic background in labour relations.

R. E. Sproule,
Instructor in Business Administration,
U.W.O.

About Our Authors cont.

Robert E. Sproule received his B.Com. from McGill University in 1949, at which time he joined the Bathurst Power and Paper Company in Montreal, gaining six years experience in production and sales. After taking the diploma course in Industrial Relations at Queen's University in 1956, he joined DuPont of Canada in Industrial Relations research. Transferring to DuPont's Shawinigan works, he made an extensive survey of community working conditions and planned a management training program. In 1958, he obtained his M.B.A. degree from the University of Western Ontario, and is currently teaching and doing research in the personnel area at the School of Business Administration, U.W.O.

J. Lawrence Dampier was born in Ontario, and graduated from the University of Western Ontario with an honours degree in Business Administration in 1935, at which time he entered the advertising department of Lever Brothers Limited in Toronto. Four years later he became advertising manager. A few weeks later he went on active service with the Queen's Own Rifles. He was awarded the Order of the British Empire and the Dutch Order of Oranje-Nassau. In 1945 he

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About Our Authors cont.

returned to Lever Brothers as Canadian sales manager, and in 1946 was appointed a director. In 1951 he was appointed vice-president in charge of sales for the Lever company in the United States with headquarters at New York. A year later he was made vice-president in charge of marketing for all Lever operations in the United States. In the Fall of 1953 he spent 13 weeks in Western Germany and Berlin as a member of a United States economic mission to those areas, and upon his return elected to come back to Canada as executive vice-president of McCann-Erickson, one of the world's largest international advertising agencies. In the Spring of 1957 he accepted the invitation of Mr. Donald Cromie to become Assistant Publisher of The Vancouver Sun.

James Elliss was born in Sydney, Australia and studied anthropology and economics at Sydney University under the Commonwealth Reconstruction Training Scheme (equivalent to the D.V.A. Assistance). He obtained his B.A. with honors in Anthropology in 1953 and did post-graduate work at the London School of Economics, where he received his M.A. in 1956. At present he is Personnel Research Officer at the Hydro-Electric Power Commission of Ontario.

Mr. H. G. DeYoung, president of Atlas Steels Limited, was born in Grand Haven, Michigan, and attended the Michigan State University for one year. He then received an appointment to the United States Naval Academy at Annapolis, where he graduated in 1931. After resigning his commission in the Navy he joined the Midvale Company, Philadelphia, Pa., a well-known firm of special alloy steel manufacturers. During this period he received a U.S. Government award for research and development of armor-piercing projectiles. In 1949 he joined Treadwell Engineering as Assistant to the President, which position he left in 1951 to become works manager of Atlas Steels Limited. He was named president of this company in 1956. In September of that same year he became a Canadian citizen. Since joining Atlas Steels he has accepted directorates on a number of boards, including Atlas Titanium Limited; Russell Industries Limited; Usines Gilson, S.A., La Croyere, Belgium; Atlas Gilson Steels, S.A., La Croyere, Belgium.

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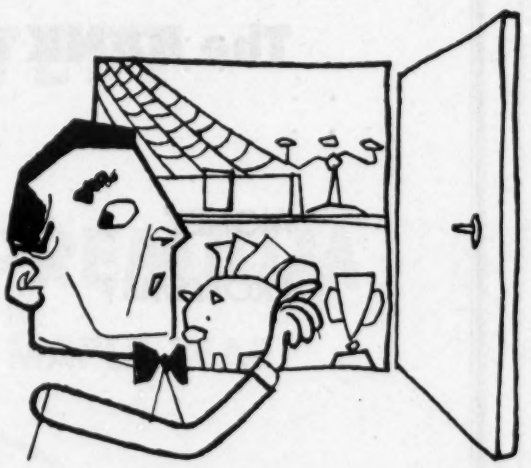

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